Dato' Mokhzani bin Mahathir
Executive Chairman

Chairman's STATEMENT

Dear Shareholders,

I'm proud to announce that Kencana Petroleum Berhad has turned in a commendable performance for the year under review, exceeding expectations on all fronts. Following our listing on the Main Board of Bursa Malaysia Securities Berhad on 15 December 2006, we have made excellent progress and are much closer to achieving our vision of being the leading solutions and services provider to the petroleum industry.

During the course of the financial year, we focused on completing the integration of the fabrication capability of subsidiary Kencana HL Sdn. Bhd. and the engineering expertise of subsidiary Kencana Bestwide Sdn. Bhd. Our integration efforts have borne fruit and today we are well entrenched in the oil & gas sector as a fully-integrated service provider for the upstream oil & gas industry. Moreover, we now have an enlarged customer base, a more widespread geographical reach and a solid capability to undertake niche projects.

Our strong project execution skills and commitment to meeting target delivery dates, as well as stringent quality and safety measures, have done much to bolster our reputation. As we continue to ramp up our integrated activities and capabilities in the markets we operate, we are in a strong position to pursue new opportunities and face any challenges.

On behalf of the Board of Directors, I am pleased to present our first Annual Report and the Audited Financial Statements of Kencana Petroleum Berhad for the financial year ended 31 July 2007.

Performance Review

The Group recorded a revenue of RM824.28 million and profit after taxation of RM57.16 million for the financial year ended 31 July 2007. This performance was mainly attributable to multiple engineering, procurement, construction, installation and commissioning (EPCIC) projects. Kencana HL and Kencana Bestwide contributed approximately 70% and 30% of revenue respectively.

The accelerated pace of development in the oil & gas sector helped fuel Kencana Petroleum's growth in the year under review. The dynamic and fast moving business environment saw almost every project that came online being fast-tracked to meet the oil majors' development plans. This rapid growth also brought with it a period of uncertainty as oil and raw commodity prices fluctuated and operating costs increased. All players throughout the segments we operate in were affected.

We worked hard to overcome the challenges of the marketplace and the results of our efforts speak volumes. At the end of financial year (FY) 2007, our basic earnings per share stood at 6.88 sen while our market capitalisation increased to RM2.5 billion. To date, we have in hand an order book worth RM1.8 billion.

Going forward, we are anticipating steady revenue growth as we leverage on our position of strength to capitalise on new business opportunities. We believe that our commitment to delivering strongly on all our undertakings by adhering strictly to target delivery timelines, maintaining stringent standards of quality, and implementing cost efficiencies throughout our operations, will continue to hold us in good stead.

On top of this, our offer of multi-disciplinary in-house design, engineering and fabrication capabilities to undertake the development of total production facilities, modules and process skid systems for the oil & gas industry, gives us a very significant competitive advantage that few operators in Malaysia are able to emulate.

Corporate Developments

LISTING EXERCISE

Kencana Petroleum was listed on the Main Board of Bursa Malaysia Securities Berhad on 15 December 2006. The listing entailed an Offer for Sale of 200 million ordinary shares of RM0.10 each at an offer price of RM0.41 per share. Under the total Public Issue, eligible directors, eligible employees and business associates of Kencana Petroleum, as well as our subsidiaries were allocated 15 million ordinary shares, while 44 million ordinary shares were made available for application by the Malaysian public and 141 million new ordinary shares were made available for private placement.

Strategic Developments

GROWTH INITIATIVES

In the period under review, Kencana Petroleum brought into play several initiatives to ensure sustainable shareholder value.

In line with the Group's vision of being the leading solutions and services provider to the petroleum industry, we undertook the full integration of Kencana HL and Kencana Bestwide, thus solidifying our lead as a key fully-integrated service provider to upstream players. In integrating the fabrication capabilities of Kencana HL with the engineering capabilities of Kencana Bestwide, the Group is now able to undertake EPCIC projects.

Recently, we enlarged our range of services by providing hook-up and commissioning services. Where before, we were classified as a minor fabricator, today we have workshops capable of housing the construction of large structures, a yard space of 123.7 acres and state-of-the-art fabrication equipment.

The Group has also seized the opportunity to expand into the niche market of fabrication of rigs, vessels and sub-sea production systems. To date, our activities have included fabricating mobile offshore production units (MOPUs), self elevating and re-locatable wellhead platforms, sub-sea manifolds and self-erecting tender assisted rigs, among others.

The year under review also saw us focusing on improving our infrastructure. We invested heavily in expanding the capabilities of the Lumut Fabrication Yard. Our covered workshops of 30,000 square metres is now one of the biggest in the country, if not the biggest. The yard is capable of operating 24/7 in all weather conditions. Its total acreage has increased to 123.7 acres in comparison to 67 acres during the December listing, while its total capacity has increased to 40,000 tonnes per annum against 24,000 tonnes at the time of listing.

We also focused on aggressively developing our technological and human capital capabilities. Our focus on acquiring technology and recruiting people with vast experience has enabled us to take on EPCIC and niche projects in a big way. We believe that by providing continuous training and development opportunities to our employees as well as by exposing them to a variety of diverse projects and technologies, we will create a loyal, robust and technically-sound workforce.

Moving into FY2008 and beyond, Kencana Petroleum will continue to leverage on the abovementioned initiatives as well as deploy new ones to ensure that we achieve our vision and create sustainable value for our stakeholders.

RESOLVING CHALLENGES

As we set our sights on growing our businesses, especially in overseas markets, we are coming face to face with the challenge of understanding different business cultures, mindsets and ways of doing things. As we make the move to pursue not only businesses focused on tender-type contracts but also businesses focused on sustainable and recurring revenue streams, we are experiencing a shortage of skilled personnel, which is a problem in our industry.

To counter these and other challenges, we have increased our strategic alliances and partnership with major industry player and technology providers in areas such as sub-sea production, drilling and offshore installation. We believe that leveraging on experienced partners already present in new

markets that we are penetrating into will help reduce the steep learning curve. We have also accelerated our training efforts by developing local talent in collaboration with training schools, developing young graduate engineers and providing systematic practical training opportunities. To date, the Group has a workforce of some 5,000 employees and workers.

Corporate Governance

The Board and Management hold integrity, transparency, accountability in the highest regard. We are committed to implementing exemplary corporate governance practices throughout the length and breadth of our organisation with a view to creating long term value for shareholders. Our Statement on Corporate Governance, the Audit Committee Report and Statement on Internal Control found further on in this annual report spell out the corporate governance controls that are in place.

Corporate Social Responsibility

We acknowledge that we have a responsibility to our employees, our shareholder and the communities in which we do business as well as to the environment. In line with this we have implemented various CSR initiatives to ensure responsible practices are carried out in all areas of our businesses. Our excellent safety record for instance highlights the fact that we have never experienced work stoppages. On the community front, we have carried out blood donation campaigns, donated funds to build new classes at schools and provided medical equipment to non-governmental organisations, just to name a few. On the environmental front, we adhere to stringent environmental best practices.

Outlook

Moving forward, the Group expects that demand for the engineering and fabrication of oil and gas production facilities, both offshore and onshore, will remain strong. The active exploration and production activities by oil and gas majors in Malaysia and overseas holds much promise. On top of this, we anticipate that the high global consumption for hydrocarbons and petroleum products will result in a corresponding high global market price for the same.

The outlook remains positive for Kencana Petroleum especially on the offshore production front. There are many new projects in the pipeline and by virtue of us being one of Petronas' seven licensees for offshore fabrication, this bodes well for us.

As we move forward, we will enhance our focus on niche markets such as the sub-sea production systems segment. We are constantly evaluating the Group's value proposition and reviewing our structure to ensure high growth and efficiency. As we move forward, we will focus on streamlining the core business activities of each subsidiary and creating a strategy-focused organisation.

To diversify our revenue streams and ensure long term recurring income, the Group will add drilling activities and marine installation services to our capabilities. As we put these new services in place, we will also implement brand building initiatives aimed at highlighting our full spectrum of capabilities and enhancing our international reputation. Our strong order book for both local and overseas projects will ensure the continued viability of our businesses going forward.

As we bring into play our stable of holistic offerings, astute financial performance and innovation to drive our businesses, we are confident that we will have a strong base from which to launch out from and compete effectively in the market.

Appreciation

On behalf of the Board of Directors of Kencana Petroleum, I wish to extend my heartfelt gratitude to all our shareholders, Petronas and all our other clients for your steadfast support and confidence in the Group. Rest assured that Kencana Petroleum will continue to deliver value.

My sincere appreciation also goes to the Government and regulatory authorities, our business partners, contractors, suppliers, bankers and financiers for your kind support. We look forward to your continued cooperation.

To our management and employees, a big thank you for your dedication and worthy contributions that have enabled the Group to achieve this year's admirable results. I trust that you will all continue to demonstrate a spirit of excellence in all that you set out to do.

Last but not least, my sincere thanks to my fellow Board Members for their wise counsel and expert guidance. I look forward to your invaluable support and continued commitment in driving the Group forward.

As we focus on taking Kencana Petroleum to new heights of success, I trust that all our stakeholders will continue to support us in our endeavours.

Dato' Mokhzani bin Mahathir
Executive Chairman

INTERVIEW WITH THE
Group Chief Executive Officer

Ir. Zainal Rashid bin Mokhtar
Group Chief Executive Officer

Q

What business is the Kencana Petroleum Group in?

A

Kencana Petroleum, through its wholly-owned subsidiaries, Kencana HL Sdn. Bhd. and Kencana Bestwide Sdn. Bhd. is an established provider of integrated engineering and fabrication of production facilities for the oil & gas industry. The Group also provides multi-discipline design and engineering services, as well as specialised fabrication for the non-oil & gas industry.

The Group's principal business activities are as follows:-

- engineering and fabrication of production facilities;
- engineering and fabrication of modules;
- engineering and fabrication of process skid systems;
- engineering, procurement, construction and commissioning (EPCC) services;
- the provision of supporting services; and
- specialised fabrication.

We have built a reputation for ourselves on the Malaysian and international fronts as a provider of high quality, innovative and competitive services and solutions. We are highly regarded for our ability to deliver total turnkey solutions for engineering and fabrication of complex structures, while maintaining outstanding standards of quality and safety.

Q **What were some of the highlights for the period under review?**

A In FY2007, Kencana Petroleum posted profit after taxation of RM57.16 million on the back of revenue of RM824.28 million. Kencana HL and Kencana Bestwide did well, exceeding expectations and contributing approximately 70% and 30% of revenue respectively.

Significant contributions to our bottom-line came by way of the Carigali-Hess Greenfield EPCIC Project worth RM759 million and the Carigali-Hess Brownfield Project worth RM300 million – both within the Malaysia Thailand Joint Development Area (MTJDA). The Greenfield EPCIC project covering the Bumi, Bulan and Suriya Gas Field Developments is one of the biggest EPCIC projects awarded to a Malaysian company. The scope-of-works included three wellhead platforms, a gas compression module and interconnecting pipelines. The latter Brownfield project involves the second phase of an early gas Brownfield construction contract for Cakerawala's platforms.

Kencana Petroleum is also currently undertaking these projects:-

- The Maari Self-elevating and Re-locatable Wellhead Platform Project (at 140-metre high, this is the tallest offshore platform structure to be built vertically in Malaysia);
- The Reliance KG-D6 Sub-sea Manifolds Project (the first sub-sea structure project undertaken in Malaysia);
- The SCDRA Sub-structure (Jacket) for Sarawak Shell;
- The MTJDA Block B17 Gas Fields Project for Carigali–PTTEPI Operating Company (this is our third MTJDA contract and together with the other two gives us a total of more than RM1 billion for works in this area);
- The Puteri Wellhead Platform for Petronas Carigali;
- The BCP-B2 Platform Project for Larsen & Toubro/ONGC (our second Indian oil & gas project);
- The Asia Petroleum Hub Project off Tanjung Bin, Johor for ZAQ Construction and Nam Fatt Corporation Bhd;
- The Heera Re-development Project for PT Sempec Indonesia, a subsidiary of Punj Llyod Ltd of India; and
- The J4 Development Project for Petronas Carigali.

With these and other projects in hand, Kencana Petroleum to date has an order book worth RM1.8 billion.

Q What growth strategies did Kencana Petroleum employ in FY2007?

A FY2007 saw us focusing on completing the integration of the fabrication and engineering capabilities of Kencana HL and Kencana Bestwide respectively. By leveraging on the synergy created by the integration, Kencana Petroleum today has a larger customer base, an extended geographical reach and a solid integrated capability to undertake Engineering, Procurement, Construction, Installation and Commissioning (EPCIC) projects.

We have enlarged our service offering in the oil & gas industry by providing hook-up and commissioning services and fabrication of rig and vessel, and continue our emphasis on the fabrication of sub-sea production systems. Our efforts in these areas have seen Kencana Petroleum receiving orders for the fabrication of mobile offshore production units (MOPUs), self elevating and re-locatable wellhead platforms, sub-sea manifolds and self-erecting tender assisted rigs, among other structures.

In FY2007, we continued to invest substantially in the Lumut Fabrication Yard in Perak and upgrade its facilities and capabilities. Our covered workshops are now one of the biggest in the country and we are optimistic that orders for larger and more complex structures will be forthcoming. We also improved our technological and human capital development capabilities which have resulted in more EPCIC and niche projects coming our way.

Q What are Kencana Petroleum's competitive advantages?

A Kencana Petroleum owes its success to a combination of elements which include:-

INTEGRATED ENGINEERING AND FABRICATION FACILITIES

The integration of our multi-disciplinary in-house design, engineering and fabrication capabilities allows us to provide strategic and comprehensive coverage to our clients. The ability to provide a total turnkey solution under one-roof and be responsible for all the administrative, project management, logistics and quality aspects of a project is a significant competitive advantage in our industry and one that few operators in Malaysia are able to emulate.

OWNERSHIP OF MAJOR FABRICATION YARD FACILITIES

We have the ability to undertake large projects simultaneously and fast track their delivery at our Lumut Fabrication Yard. With a total acreage to date of 123.7 acres yard and a capacity of 40,000 tonnes per annum, the yard is capable of operating round the clock in all weather conditions. On top of this, we possess a covered workshops of 30,000 square metres and can safely and efficiently load and unload large structures onto marine vessels at our 490-meter long waterfront loadout jetty.

STRONG QUALITY CONTROL AND SAFETY TRACK RECORD

Kencana Petroleum has established itself among customers as an operator with quality service and high safety standards. The Group's engineering and fabrication activities and end products adhere to stringent international quality standards including ISO 9001:2001 accreditation from Lloyds and Moody. We have also been awarded various health and safety awards from DOSH Malaysia and ASME, among others, and possess a fairly large and experienced quality control and assurance team.

SOLID MARKET REPUTATION AND ESTABLISHED PROJECT TRACK RECORD

We have garnered substantial experience in the oil and gas industry and have successfully established ourselves as a reputable player that is able to deliver on or ahead of project timelines. We are known for our high quality, reliability and strong technical and project execution skills as well as our ability to undertake complex and large projects.

PETRONAS APPROVED LICENSEE AND OTHER REGISTRATIONS

We are one of seven Petronas approved licensees in Malaysia for major offshore fabrication projects. Not only does the prerequisite Petronas licensing and other registrations pose a significant barrier to entry for new operators, the fact that not all the other licensees are fully active in engineering and fabrication of production facilities, has reduced the competitive intensity for us.

EXPERIENCED MANAGEMENT AND A SKILLED TECHNICAL TEAM

Our senior management team and key technical personnel have in-depth knowledge and significant experience in the oil and gas industry, both locally and overseas.

Q What will drive demand for Kencana Petroleum's solutions and services going forward?

A There are several drivers that will accelerate the growth of Kencana Petroleum's businesses. The active discovery of new oil & gas reserves, both in Malaysia and other parts of the world will increase demand for both offshore and onshore structures. By bringing marginal fields into production, this will help drive demand for oil & gas production facilities. We also anticipate substantial deepwater development activities to increase the demand for deepwater fabrication services which are not that different from our current shallow water fabrication activities. On top of this, technological advances in sub-sea production systems, rig construction and conversion, and other activities will boost the demand for our services.

With strong energy demand expected from China and India, together with the anticipated upward momentum of oil prices which will encourage production and development of new fields and in turn drive demand for new production facilities, the future looks very promising for Kencana Petroleum. Moreover, under-investment in equipment and facilities over the last many years is expected to trigger off demand for new rig and platform construction, while the long overdue asset replacement cycle too, bodes well for Brownfield and upgrade projects. All in all, these developments will translate into new engineering and fabrication opportunities for the Kencana Petroleum Group.

Q How do people view the Kencana Petroleum brand?

A In the oil & gas sector, when people think of Kencana, they see us as the company that puts its money where its mouth is. Our strong project execution expertise and commitment to meeting delivery deadlines, speak volumes about our capabilities. On top of this, we are recognised for adhering to stringent quality and safety measures. In fact our brand mantra is: "We Commit, We Deliver". We have built our reputation on the strength of how and when we deliver, and will continue to focus on these fundamentals as we enhance our capabilities in existing markets and pursue opportunities in new ones.

Q How will you expand your capability in the coming year?

A As Kencana Petroleum prepares to leapfrog forward as a full-fledged integrated oil & gas services provider, we will work hard to bolster our existing capabilities and implement astute growth strategies. Our plans include venturing into more niche sub-sea and process equipment fabrication opportunities. We will bolster our capability through strategic alliances and the transfer of knowledge as well as by implementing a systematic human capital development plan. We will move from our current engineering and fabrication capability into the new areas of marine drilling and offshore services. With all these in place, we will undoubtedly strengthen our competitive edge in the marketplace.

Q What is the outlook for Kencana Petroleum's businesses?

A The future looks bright with the increase in oil and gas exploration activities and the need to turn it into production rapidly. The current high price of oil will likely encourage further discoveries and investments in the upstream segment and will lead to demand for fabrication of new offshore platforms, which bodes well for us.

We expect to see our activities on the international front expanded as we tap opportunities in markets that provide good growth prospects. Other than the provision of services to oil exploration companies in New Zealand, Australia, the Malaysia-Thailand Joint Development Area, India and Sudan, we plan to make further inroads into other Asia Pacific, Middle Eastern and African markets. With a strong order book in the region of RM1.8 billion, we are definitely upbeat about our performance going forward.

Ir. Zainal Rashid bin Mokhtar
Group Chief Executive Officer

EVENTS OF
The Year

22 November 2006

On 22 November 2006, Kencana Petroleum launched its Prospectus in conjunction with the Main Board listing of shares. The event was officiated by Tan Sri Nor Mohamed Yakcop and witnessed by Tan Sri Azman Hashim, Chairman of the Ambank Group and members of the media.

Finance Minister II, Tan Sri Nor Mohamed Yakcop, shaking hands with Dato' Mokhzani Mahathir, at the launch of Kencana Petroleum's Propectus.

22 November 2006

Over 100 analysts and members of the press gathered at the Westin, Kuala Lumpur on 22 November 2006 ensuring that investment analysts and the media received comprehensive reporting of Kencana Petroleum strategies, business focus and future direction.

Local and foreign analysts gathered at the Analysts Briefing of Kencana Petroleum Prospectus.

29 November 2006

Kencana Petroleum organised a fabrication yard familiarisation tour of operations and activities with various members of the media and financial analysts at our Lumut Fabrication Yard.

Chief Operating Officer, Ir. Omar Isa, on site with financial analysts at Kencana HL fabrication yard as they tour the plant.

1 December 2006

Minister of Transport, Deputy Minister of Science & Technology touring the main workshop during the launch of the premise at the Lumut Port Industrial Park, Perak on 1 December 2006.

Dato' Sri Chan Kong Choy, Minister of Transport, with Kencana Petroleum Board of Directors officiating the launch of its main workshop.

15 December 2006

15 December 2006 marked the entry of Kencana Petroleum as a listed entity on Bursa Malaysia, members of the Board and officials of the exchange were present to observe this historical event in Kuala Lumpur.

Members of the Board of Directors witness Chairman, Dato' Mokhzani Mahathir, striking the gong marking Kencana Petroleum's listing on Bursa Malaysia.

1 February 2007

On a lighter vein, the staff and clients of Kencana Petroleum gathered at the Majlis Perbandaran Manjung Hall to usher in the Chinese Lunar New Year with a festive feast and performances by local cultural groups and entertainment for all.

Celebrating Chinese New Year with Kencana HL Managing Director, Ir. Haron Ali, posing with festive lion for luck and prosperity.

26 March 2007

In line with strengthening our CSR initiatives, Kencana Petroleum donated vital diagnostic equipment to the Malaysian Emergency Medical Support Association (MEMSA) in support of its services at a ceremony in Kencana Petroleum's branch office in Kuala Lumpur.

MEMSA CEO, Dr. Patrick Teo, receiving a gift of Diagnostic Equipment from Kencana Petroleum Group CEO, Ir. Zainal Rashid bin Mokhtar.

3 April 2007

Guests from KIC Oil, ZAQ, APH and members of the media gathered at the Shangri-La Hotel, Kuala Lumpur on the 3 April 2007 to witness the signing ceremony for the award of The Procurement, Construction & Commissioning of a Petroleum Hub and Bunkering Facility at the Reclaimed Island off Tanjung Bin, Johor.

Dato' Mokhzani Mahathir, En. Zamani Rafique and En. Abdul Rashid Mohamad Isa Al-Qadiry at signing ceremony of the Petroleum Hub and Bunkering Facility for the Reclaimed Island off Tanjung Bin, Johor.

13 June 2007

19,392 visitors from the oil and gas industry and support services got a glimpse of the versatility of Kencana Petroleum's strengths and services through the exhibition booth at the largest specialised exhibition of its kind at the Kuala Lumpur Convention Center on 13 June 2007.

COO, Ir. Omar Isa, at Kencana Petroleum's exhibition booth at the 11th Asian Oil, Gas & Petrochemical Exhibition (OGA) 2007.

14 August 2007

The visit by Petronas, Exploration & Production Unit Management Team to Kencana Petroleum's Lumut Fabrication Yard on 14 August enhanced the understanding and accreditation of the comprehensive scope of services delivered by the group to the oil and gas industry.

Petronas Management Unit site visit to the Lumut Fabrication Yard.

15 September 2007

Kencana Petroleum Safety department in collaboration with Jabatan BOMBA Sitiawan organised an emergency response demonstration for the yard workers to improve their effectiveness and resolution should a situation arise within the fabrication yard. Participants were given procedural instruction and first hand demonstration of proper techniques in minimising risk should a safety incident arise.

Emergency Safety Response Demonstration.

21 September 2007

Participants from Shell Sarawak and Kencana Petroleum together at a joint team building exercise to instill better cooperation and a culture of high performance between the two partners at the SCDRA-A Substructure Project event.

Kencana Petroleum and Shell Sarawak teams at SCDRA-A Substructure Project Teambuilding Exercise.

STATEMENT OF Corporate Governance

The Board of Directors (the Board) of Kencana Petroleum Berhad (Kencana Petroleum) confirms that throughout the financial year ended 31 July 2007, it has continued to integrate good and effective corporate governance practices into the overall business direction and management of Kencana Petroleum group of companies (the Group), in compliance with the Best Practices of the Malaysian Code of Corporate Governance (the Code).

The Board is determined and committed towards ensuring maximum shareholders' value and enhancing investors' interest in line with the application of the principles of the Code.

The Board of Directors

COMPOSITION, DUTIES AND RESPONSIBILITIES

The Group is led by a proactive Board with a blend of good management and entrepreneurial skills, supported by independent directors who bring to the Board their different fields of training and experiences.

The Board comprise of seven (7) directors, with one (1) non-independent executive Chairman, four (4) non-independent executive directors and two (2) independent non-executive directors. The Board is satisfied that its current composition fairly reflects the investment of the Company, and that its current size and composition are effective for the proper functioning of the Board. The Independent Non-Executive Directors are independent of management and are free from any businesses or other relationships that could materially interfere with the exercise of independent judgment. The independent Directors provide a broader view and an independent and balanced assessment.

The Board takes full responsibility for the overall performance of the Company and of the Group. This includes:-

(a) Reviewing and adopting strategic business plans for the Group;

(b) Identifying principal risks and ensuring the implementation of appropriate systems to manage these risks;

(c) Managing and overseeing the operations of the Group's businesses; and

(d) Reviewing the adequacy and integrity of the Group's systems of internal controls and management systems including systems for compliance with applicable laws, regulations, rules, directives, and guidelines.

The Board recognises that the decision making process is highly dependent on the quality of information furnished. In discharging their duties, the Directors, where necessary, have access to the advices and services of the Company Secretary and/or other independent professional advisors. They also have full and timely access to all information concerning the Company and the Group.

All Board meetings held were preceded by a notice issued by the Company Secretary. Prior to each Board meeting, the agenda together with relevant reports and Board papers would be circulated to all Directors in sufficient time to facilitate effective discussion and decision making during Board meetings. In addition, the Board is also notified of any corporate announcements released to the Bursa Malaysia Securities Berhad.

BOARD MEETINGS

During the financial year ended 31 July 2007, the Board met two (2) times, where it deliberated and considered a variety of matters affecting the Group's operations including the Group's financial results, business plan and the direction of the Group. Management and performance of the Group and any other strategic issues that may affect the Group's businesses are also deliberated.

Two Board meetings were held during the financial year and all Directors attended the said meetings.

BOARD COMMITTEES

The Board delegates certain responsibilities to the Board Committees, namely an Audit Committee, a Remuneration Committee and a Nomination Committee in order to enhance business efficacy and operational efficiency.

The terms of reference and activities of the committees during the financial year ended 31 July 2007 are set out in Board Committees on pages 42 to 46 of this Annual Report.

APPOINTMENT AND RETIREMENT OF DIRECTORS

The Nomination Committee has been tasked to assist the Board to evaluate and recommend candidates for appointments to the Board.

In accordance with the Company's Articles of Association (the Articles), all Directors who are appointed by the Board during a financial year are subject to retirement at the following Annual General Meeting. The Articles also provide that at least one-third (1/3) of the Directors for the time being, or if their number is not three or multiple of three, then the number nearest to one-third (1/3) shall retire from office provided always that all Directors shall retire from office at least once every three (3) years but shall be eligible for re-election.

At the forthcoming 3rd Annual General Meeting, Chong Hin Loon and Yeow Kheng Chew are due to retire pursuant to Articles. They have offered themselves for re-election.

DIRECTORS' TRAINING

All Directors of the Company have completed the Mandatory Accreditation Programme. During the year, they received briefings and updates on the Group businesses, operations, risk management, internal controls, finance and any new or changes to the companies and other relevant legislation, rules and regulations.

The Directors are encouraged to attend briefings and seminars to keep abreast with latest developments in the industry and to enhance their skills and knowledge.

DIRECTORS' REMUNERATION

The Directors' remuneration is linked to experience, scope of responsibility, seniority, performance and industry information. Details of Directors' remuneration for the year ended 31 July 2007 are as follows:-

	FEES RM	REMUNERATION RM
Executive Directors	—	2,469,000
Non-Executive Directors	62,000	—

The number of Directors in each remuneration band is as follows:-

RANGE OF REMUNERATION	NUMBER OF DIRECTORS
Independent Director	
Less Than RM50,000	2
Executive Director	
RM300,000 – RM350,000	2
RM500,001 – RM550,000	1
RM550,001 – RM600,000	1
RM800,001 – RM850,000	1

Accountability and Audit

FINANCIAL REPORTING

The Board takes responsibility for ensuring that the financial statements of the Group and of the Company give a true and fair view of the state of affairs of the Group and of the Company as required under the Companies Act, 1965. Efforts are made to ensure that the financial statements comply with the provisions of the Companies Act, 1965 and the applicable approved financial reporting standards in Malaysia. The Board also ensures the accuracy and timely release of the Group's quarterly and annual financial results to Bursa Malaysia Securities Berhad.

INTERNAL AUDIT FUNCTION

The Group is in the process of setting up its own Internal Audit & Risk Management Department. The internal audit review of the Group's operations shall encompass an independent assessment of the Group's compliance with its internal controls and shall make recommendations for improvements.

The department will provide an independent appraisal to the Group. This is to provide the Audit Committee and thereafter the management with independent and objective advice on the effectiveness of the Group's businesses and operations. The Group recognises that it is the management's responsibility to analyse risks and to devise and implement effective systems of internal control. The fulfillment of the above objective is achieved by providing reasonable assurance through an effective and efficient programme of independent review across the Group to the management and to the Board on an on-going basis. This is not confined to but will include:-

(a) Appraising the adequacy and integrity of the internal controls and management information systems of the Group;

(b) Ascertaining the effectiveness of operational management in identifying principal risks and to manage such risks through appropriate systems of internal control set-up by the Group;

(c) Ascertaining the level of compliance with the Group's plans, policies, procedures and adherence to laws and regulations;

(d) Appraising the effectiveness of administrative and financial controls applied and the reliability and integrity of data that is produced within the Group;

(e) Ascertaining the adequacy of controls for safeguarding the Group's assets;

(f) Conducting special reviews or investigations requested by management or by the Audit Committee; and

(g) In consultation with the management, reviewing operations as a whole from the viewpoint of economy and productivity to which resources are employed and making cost effective recommendations to the management.

EXTERNAL AUDIT FUNCTION

The Company's independent external auditors play an essential role by enhancing the reliability of the financial statements of the Group and of the Company and giving assurance of that reliability to users of these financial statements. The Company, through Audit Committee, has an appropriate and transparent relationship with the external auditors.

Relations with Shareholders and Investors

ANNUAL GENERAL MEETING

Annual General Meeting (AGM) is the principal forum for dialogue with shareholders. At the Company's AGM, shareholders have direct access to the Board and are given opportunities to ask questions. The shareholders are encouraged to participate in the question and answer session. The Chairman of the Board in the AGM presents to the shareholders, the Company's operations in the financial year and outlines future prospects of the Group. Further, the Group's Company Secretary could provide shareholders and investors with a channel of communication on which they can provide feedback to the Group. Queries regarding the Group may be conveyed to the Company Secretary at the Company's registered address.

DIALOGUE BETWEEN THE COMPANY AND INVESTORS

The Group values dialogue with shareholders and investors as a means of effective communication that enables the Board to convey information with regards to the Group's performance, corporate strategy and other matters that affect shareholders' interest. The Company holds discussion with analysts and institutional shareholders regularly.
Presentations based on permissible disclosure are made to explain the Group's performance and major development plans. However, price sensitive information about the Group is not discussed in these exchanges until after the prescribed announcement to the Bursa Malaysia Securities Berhad has been made.

BOARD Committees

The Board of Directors (the Board) of Kencana Petroleum Berhad (Kencana Petroleum) is pleased to present the report of Board Committees for the financial year 2007.

Audit Committee

OBJECTIVES

The primary objective of the Audit Committee is to assist the Board in fulfilling its fiduciary duties relating to corporate accounting and reporting practices of the Company and its subsidiary companies (the Group). Additionally, the Audit Committee shall:-

(a) Evaluate and appraise the quality of audits conducted by both the Company's internal and external auditors;

(b) Maintain open lines of communication between the Board, internal and external auditors for exchange of views and information, as well as to confirm their respective authority and responsibilities;

(c) Determine the adequacy of the Group's administrative, operating and accounting controls;

(d) Oversee compliance with laws and regulations and observance of a proper code of conduct; and

(e) Provide assurance that the financial information presented by management is relevant, reliable and timely.

COMPOSITION OF AUDIT COMMITTEE

The Audit Committee shall be appointed by the Board from amongst the Directors and shall consist of not fewer than three (3) members, a majority of whom shall be Independent Non-Executive Directors. The Committee was formed on 11 October 2006.

The members of the Audit Committee shall elect a Chairman from amongst their members who shall be an Independent Non-Executive Director.

All members of the Audit Committee including the Chairman will hold office only so long as they serve as Directors of Kencana Petroleum. If the number of members is reduced to below three (3), the Board shall within three (3) months of that event, appoint such number of new members as may be required to make up the minimum number of three (3) members.

The Audit Committee comprises mainly of Independent Non-Executive Directors as follows:-

NAME OF AUDIT COMMITTEE MEMBER	
Azmi bin Ismail	*Chairman* *Independent Non-Executive Director*
Mohd Adzahar bin Abdul Wahid	*Member* *Independent Non-Executive Director*
Ir. Cher Lee Kiat	*Member* *Non-Independent Executive Director*

ATTENDANCE AT MEETING

Meetings shall be held not less than four (4) times in a financial year. Additional meetings may be called at any time if so requested by any Committee member, management, internal auditor or external auditor. Other directors and employees shall attend any particular Audit Committee meeting only at the Audit Committee's invitation, specific to the relevant meeting.

In order to form a quorum for the Audit Committee meeting, the majority of members present must be Independent Non-Executive Director. The Company Secretary or his/her nominee shall be the secretary of the Audit Committee. In his/her absence, the Chairman shall appoint the secretary.

Any decision made at meetings shall be by a simple majority. In the event issues requiring the Committee's decision arise between meetings, such issues shall be resolved through circular resolution.

AUTHORITIES

In carrying out its duties and responsibilities, the Audit Committee will have the following rights:-

(a) Have explicit authority to investigate any matter within its terms of reference;

(b) Have the resources required to perform its duties;

(c) Have full and unrestricted access to any information, records, properties and personnel of Kencana Petroleum and of any other companies within the Group;

(d) Have unrestricted access to the Chief Executive Officer and Chief Financial Officer;

(e) Have direct communication channels with the external auditors and person(s) carrying out the internal audit function or activity;

(f) Be able to obtain independent professional or other advice and to invite outsiders with relevant experience and expertise to attend the Audit Committee meetings (if required);

(g) The attendance of any particular Audit Committee meetings by other Directors and employees of Kencana Petroleum shall be at the Audit Committee's invitation and discretion and must be specific to the relevant meeting; and

(h) Be able to convene meetings with external auditors without the presence of the executive Board members, whenever deemed necessary.

DUTIES AND RESPONSIBILITIES

The duties and responsibilities of the Audit Committee are as follows:-

(a) to review the quarterly and annual financial statements, prior to submission to the Board, focusing particularly on:-

   i. changes in or implementation of accounting policies and practices;
   ii. major judgmental areas;
   iii. significant and unusual events;
   iv. the going concern assumption;
   v. compliance with accounting standards and other legal requirements; and
   vi. compliance with Bursa Malaysia requirements;

(b) to review with the external auditors:-

   i. their audit plan;
   ii. evaluation of the system of internal controls and management information systems;
   iii. problems and reservation arising from their audits; and
   iv. audit report;

(c) to review any management letter sent by the external auditors to the Company and the management's response to such letter;

(d) to assess the adequacy and effectiveness of the systems of internal control and accounting control procedures of the Company and the Group;

(e) to review the internal audit plan, major findings of internal audit, and actions and steps taken by management in response to audit findings;

(f) to consider the nomination/appointment of external auditors, the audit fee and any questions of resignation or dismissal;

(g) to review all areas of significant financial risk and the arrangements in place to contain those risks to acceptable levels;

(h) to review any related party transaction and conflict of interests situations that may arise within the Company or Group;

(i) to verify that the allocation of options pursuant to Employees' Share Option Scheme complies with the criteria of allocation; and

(j) to report to the Board its activities, significant results and findings.

MEMBERSHIP AND MEETINGS OF AUDIT COMMITTEE

The Audit Committee comprises the following three (3) members, of which the majority are Independent Non-Executive Directors. The Chairman of the Audit Committee is an Independent Non-Executive Director.

Two Audit Committee meetings were held during the financial year and all committee members attended the said meetings.

SUMMARY OF ACTIVITIES OF THE AUDIT COMMITTEE

The Audit Committee carried out its duties as set out in the terms of reference. Other main activities carried out by the Audit Committee during the financial year included the following:-

1. **Financial Results**
   Reviewed the quarterly unaudited financial results of the Group before tabling to the Board for consideration and approval.

2. **External Audit**
   (a) Reviewed the external auditors' scope of work and audit plan for the year; and
   (b) Discussed on significant accounting and auditing issues, impact of new or proposed changes in accounting standards and regulatory requirements.

3. **Internal Audit**
   (a) Setting up Internal Audit & Risk Management department, identifying roles & responsibilities and standards;
   (b) Appointed Messrs Ernst & Young as internal audit advisory partner; and
   (c) Engaged Messrs KPMG to carry out Enterprise Risk Management (ERM) review to identify critical risks.

The allocation of options pursuant to the ESOS has been reviewed by the Audit Committee, as being in compliance with the criteria.

Remuneration Committee

OBJECTIVE

The Group operates in a competitive environment and it is essential that part of its strategy is to attract, motivate and retain the highest achievers who are able to deliver towards achievement of the business objectives. The level of remuneration and benefits the Company offers is the key to support the objectives and maintaining the Group's market position as an employer of choice. The Company provides competitive salaries and benefits for all its employees, consistent with its business strategy and performance.

COMPOSITION OF REMUNERATION COMMITTEE

The Committee shall be appointed by the Board from amongst the directors of the Company and shall consist of not less than three (3) members, comprising mainly of non-executive directors. In the event of any vacancy with the result that the number of members is reduced to below three (3), the vacancy must be filled within three (3) months. The committee was formed on 11 October 2006.

The Remuneration Committee comprises mainly of Independent Non-Executive Directors as follows:-

NAME OF REMUNERATION COMMITTEE MEMBER	
Azmi bin Ismail	*Chairman* *Independent Non-Executive Director*
Mohd Adzahar bin Abdul Wahid	*Member* *Independent Non-Executive Director*
Dato' Mokhzani bin Mahathir	*Member* *Non-Independent Executive Chairman*

The Remuneration Committee recommends to the Board the reward framework to allow the Company to attract and retain its Executive Director giving due regard to the financial and commercial health of the Company. The Remuneration Committee's approach reflects the Group's overall philosophy that all employees should be appropriately rewarded.

REMUNERATION POLICY

The Company aims to align the interests of its Executive Director as closely as possible with the interests of shareholders in promoting the Group's strategies. Total remuneration comprises fixed salary, performance related bonus, and benefit-in-kind. Salary and benefits are competitive and are reviewed annually. In making recommendations on the framework for retaining and rewarding Executive Directors, the Remuneration Committee reviews the total reward package, making use of internally and externally published information. The salaries of the Executive Directors is proposed by the Remuneration Committee annually after consideration of the Group's performance, market conditions, the level of increase awarded to employees throughout the business and the need to reward individual performance.

ATTENDANCE AT MEETING

The Committee shall meet at least once a year, although additional meetings may be convened at any time at the discretion of the Chairman of the Committee.
The quorum for a meeting shall be two (2) members and any decision shall be by a simple majority.

In the event issues requiring the Committee's decision arise between meetings, such issues shall be resolved through circular resolution.

AUTHORITIES

The Committee is authorised by the Board to discharge its duties and responsibilities set out below. The Committee shall not have the power to implement its recommendations but should be obliged to report its recommendations to the full Board for the Board's consideration.

In discharging its duties and responsibilities, the Committee shall have access to all required information and assistance from personnel with the Company.

The Committee is further authorised by the Board to obtain external professional advice and to secure the attendance of representatives of such external advisers if it considers this necessary.

DUTIES AND RESPONSIBILITIES

The duties and responsibilities of the Committee shall be:-

- To recommend to the Board, the remuneration and compensation of the Executive Directors in all its form, drawing from external advice where necessary; and
- To establish a formal procedure for developing policy on Executive Directors' remuneration and compensation package.

Nomination Committee

OBJECTIVE

The Nomination Committee was set out to ensure business continuity of the Company and the Group by having in place a succession plan for the Board of Directors (the Board) and senior management.

COMPOSITION OF NOMINATION COMMITTEE

The Committee shall be appointed by the Board from amongst the directors of the Company and shall consist of not less than two (2) members, comprising exclusively of non-executive directors. A majority of the Committee shall be independent non-executive directors. In the event of any vacancy with the result that the number of members is reduced to below three (3), the vacancy must be filled within three (3) months. The committee was formed on 11 October 2006.

The Nomination Committee comprises exclusively of Independent Non-Executive Directors as follows:-

NAME OF NOMINATION COMMITTEE MEMBER	
Azmi bin Ismail	*Chairman* *Independent Non-Executive Director*
Mohd Adzahar bin Abdul Wahid	*Member* *Independent Non-Executive Director*

NOMINATION COMMITTEE POLICY

Fundamentally, new appointments to the Board are made by the whole Board and potential Non-Executive Directors are suggested by any Director and reviewed by the Nomination Committee before the candidate is being approached. Any new appointment is made by the Board only after a recommendation from the Nomination Committee. In view of the essential requirement for potential Directors to understand the nature of responsibilities of the Board and the extensive operations of the Group, it is vital for the Executive Chairman to take part in the briefing of any nominees to the Board. Accordingly, the Nomination Committee is structured as a sub-committee of the whole Board so that all Directors can participate in the nomination process.

ATTENDANCE AT MEETING

The Committee shall meet at least once a year, although additional meetings may be convened at any time at the discretion of the Chairman of the Committee.
The quorum for a meeting shall be two (2) members and any decision shall be by a simple majority. In the event issues requiring the Committee's decision arise between meetings, such issues shall be resolved through circular resolution.

AUTHORITIES

The Committee is authorised by the Board to discharge its duties and responsibilities set out below. The Committee shall not have the power to implement its recommendations but should be obliged to report its recommendations to the full Board for the Board's consideration.

In discharging its duties and responsibilities, the Committee shall have access to all required information and assistance from personnel with the Company.

The Committee is further authorised by the Board to obtain external professional advice and to secure the attendance of representatives of such external advisers if it considers this necessary.

DUTIES AND RESPONSIBILITIES

The duties and responsibilities of the Committee shall be:-

(a) to recommend to the Board, candidates for all directorships to be filled by the shareholders or the Board;

(b) to consider, in making its recommendations, candidates for directorships proposed by the Managing Director, Executive Chairman and, within the bounds of practicability, by any other senior executive or any director or shareholder;

(c) to recommend to the Board, directors to fill the seats on Board committees;

(d) to review and report to the Board, the Board's required mix of skills and experience and other qualities, including core competencies which non-executive directors should bring to the Board on an annual basis;

(e) to assess and report to the Board, the effectiveness of the Board as a whole on an annual basis;

(f) to assess and report to the Board, the effectiveness of the committees of the Board on an annual basis;

(g) to assess and report to the Board, the contribution of each individual director on an annual basis;

(h) to ensure that a new director to the Board is provided with training which encompasses educating the director as to the nature of the business of the Group, current issues within the Group and the corporate strategy, the expectations of the Company concerning input from directors and the general responsibilities of directors; and

(i) to consider the training needs of the Directors and recommend to the Board relevant training programmes.

ADDITIONAL COMPLIANCE
Information

1. Status of Utilisation of Proceeds Raised from Corporate Proposals

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

	PURPOSE	PROPOSED UTILISATION RM'000	ACTUAL UTILISATION 31.07.2007 RM'000	INTENDED TIMEFRAME FOR UTILISATION	DEVIATION RM'000	DEVIATION %	EXPLANATIONS
(i)	Working Capital	53,000	38,471	12 months	14,529	27	Note (1)
(ii)	Repayment of borrowings	25,000	25,000	3 months	—	—	n/a
(iii)	Listing Expenses	4,000	4,630	Immediate	(630)	(16)	Note (2)
		82,000	68,101		13,899		

(1) *Progressive utilisation within 12 months from date of Company's listing.*

(2) *The figure disclosed in the Prospectus was an estimate and the amount incurred is final.*

2. Share Buybacks

The Company did not enter into any share buyback transactions during the financial year ended 31 July 2007.

3. Options, Warrants or Convertible Securities

The Company has not issued any options, warrants or convertible securities during the financial year ended 31 July 2007 other than the granting of options under the Employees' Share Option Scheme (ESOS) as disclosed in Note 12 to the Financial Statements.

4. American Depository Receipt (ADR) or Global Depository Receipt (GDR) Programme

The Company did not sponsor any ADR or GDR programme during the financial year ended 31 July 2007.

5. Imposition of Sanctions and/or Penalties

There were no sanctions and/or penalties imposed on the Company and its subsidiaries, Directors or Management by relevant regulatory bodies during the financial year ended 31 July 2007.

6. Non-Audit Fees

The amount of non-audit fees paid to external auditors by the Group for the financial year ended 31 July 2007 are as follows:-

		RM
(a)	Professional services in connection with the floatation of Kencana Petroleum Berhad on the Main Board of Bursa Malaysia Securities Berhad	40,000
(b)	Tax compliance services	36,200
(c)	Tax advisory services	30,000
	Total	106,200

7. Variation in Results

The Group has issued profit forecast which was included in the Company's Prospectus dated 21 November 2006. The difference between the actual results (unaudited) and forecast figures for the financial year ended 31 July 2007 are tabulated as follows:-

	ACTUAL RM'000	FORECAST RM'000	VARIANCE RM'000	%
Revenue	824,283	887,685	(63,402)	(7.1)
Net profit	57,160	45,238	11,922	26.4

The shortfall in revenue was primarily due to lower revenue recognised for one of its ongoing projects due to changes in the schedule for offshore activities.

The positive variance in net profit after taxation was mainly attributable to higher gross profit margin and recognition of negative goodwill arising from the acquisition of Kencana Bestwide as disclosed in Note 16 of the Financial Statements.

8. Profit Guarantee

The Company did not receive any profit guarantee during the financial year ended 31 July 2007.

9. Material Contracts

There were no material contracts entered into by the Company and/or its subsidiaries during the financial year ended 31 July 2007, which involves the interest of Directors and major shareholders.

10. Revaluation Policy

The Company does not adopt a policy of regular revaluation.

STATEMENT ON
Internal Control

Board Responsibilities

The Board of Directors (the Board) of Kencana Petroleum Berhad (Kencana Petroleum) is responsible for maintaining a sound system of internal control and for reviewing its adequacy and integrity so as to safeguard the shareholders' investments and the assets of Kencana Petroleum group of companies (the Group). The Board and management have implemented a control system designed to identify and manage risks faced by the Group in pursuit of its business objectives. This internal control system, by its nature, can only provide reasonable and not absolute assurance against material misstatement or loss.

The Group has in place an on-going process for identifying, evaluating, monitoring and managing significant risks faced by the Group during the year. The management is responsible for the identification and evaluation of significant risks applicable to their respective areas of business and to formulate suitable internal controls.

Risk Management Framework

The Board has embarked on a formal group-wide Enterprise Risk Management Framework (ERM) covering the Group's core business activities to identify, evaluate and manage significant business risks that may affect the achievement of its business objectives. The ERM is undertaken jointly by a firm of professional consultants and senior management of the Group.

Internal Control System

The key process of the Group's internal control system include the following:-

(a) Defined lines of accountability and delegated authority;

(b) Regular information provided to management, covering operating and financial performance and key business indicators such as resource utilisation, cash flow performance and project achievement;

(c) A budgeting process where operating units prepare budgets for the coming year, which are approved at both the operating unit level and by the Board;

(d) Monthly monitoring of results against budget, with major variances being followed up and management action taken, where necessary;

(e) Visits to operating units by members of the Board and senior management; and

(f) External consultants were appointed to assist the development of a Risk Management Framework and to perform Internal Control Review. The key risk profile and the significant risk faced by the Group have been presented to the Audit Committee. Going forward, the Audit Committee shall obtain assurance on the adequacy and integrity of the Group's internal controls system through reviews of reports it shall receive from the internal audit function (which is outsourced to external consultants), and management internal audits are to be conducted according to the approved internal audit plan and the results of these audits shall be tabled at the Audit Committee's meetings.

STATEMENT OF

Directors' Responsibility

The financial statements of the Group and of the Company are drawn up in accordance with the applicable approved financial reporting standards in Malaysia and the provisions of the Companies Act, 1965. The Directors are responsible for ensuring that the financial statements given a true and fair view of the state of affairs of the Group and of the Company at the end of the financial year and of the results and cash flows of the Group and of the Company for the financial year.

In preparing the financial statements, the Directors have:-

(a) Selected suitable accounting policies and applied them consistently;

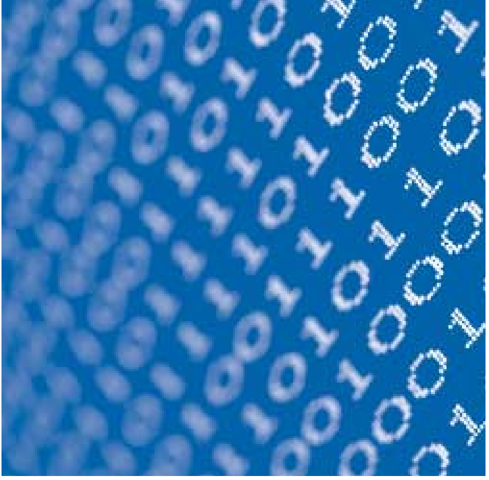
(b) Made judgments and estimates that are reasonable and prudent;

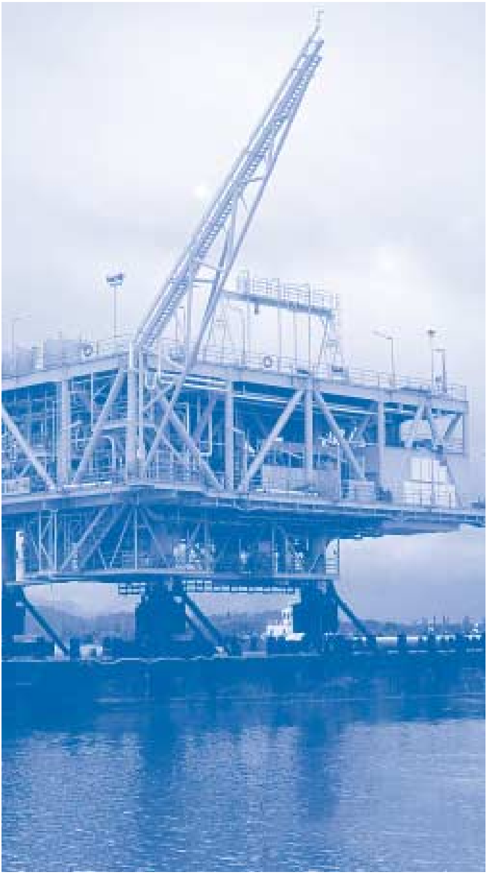
(c) Ensured that all applicable accounting standards have been followed; and

(d) Prepared financial statements on a going concern basis as the Directors have a reasonable expectation having made appropriate enquiries that the Group and the Company have adequate resources to continue in operational existence in the foreseeable future.

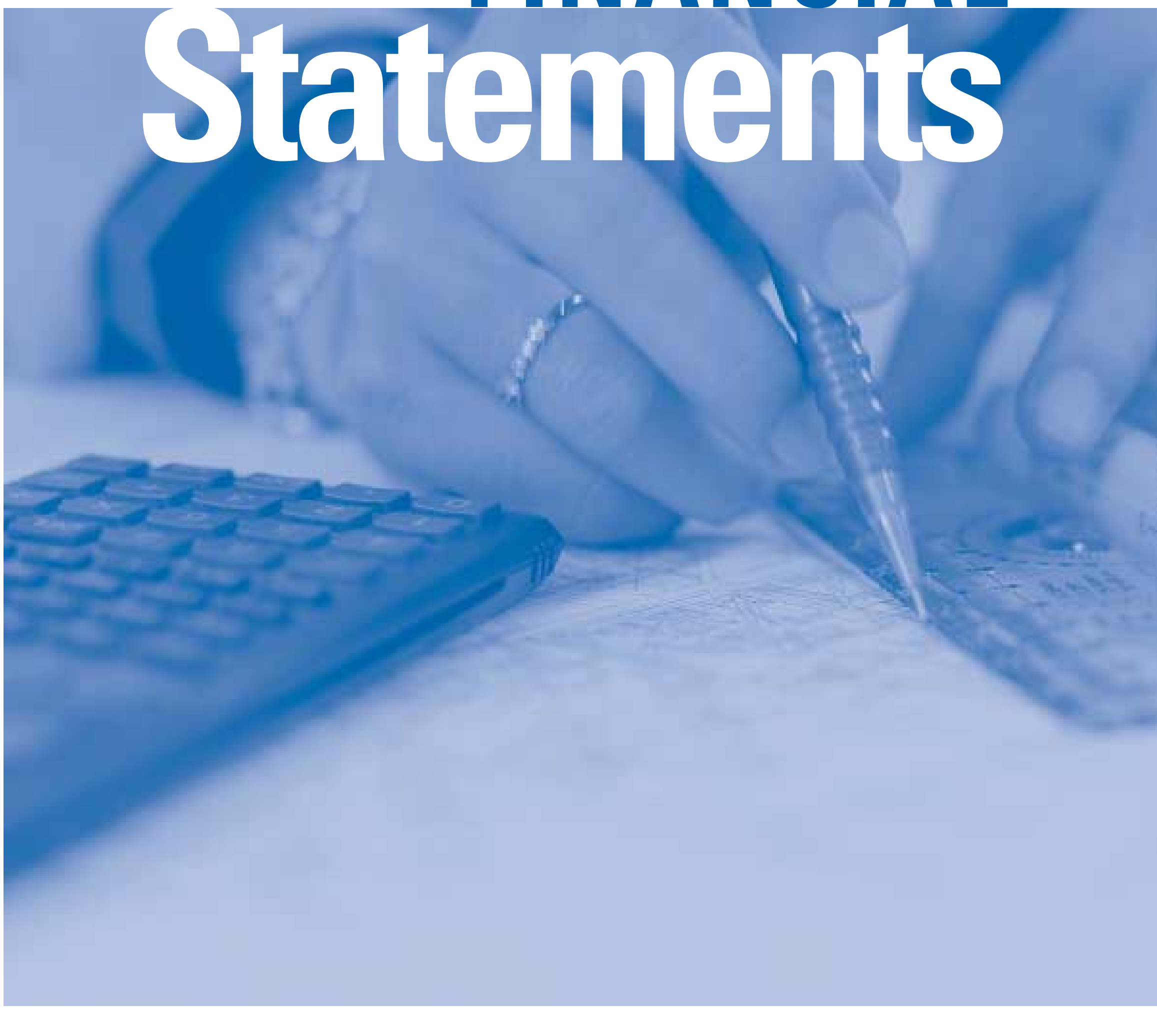
The Directors have the responsibility for ensuring that the Company keeps accounting records which disclose with reasonable accuracy the financial position of the Group and of the Company and which enable them to ensure that the financial statements comply with the Companies Act, 1965.

The Board has the overall responsibility to take all steps as are reasonably opened to them to safeguard the assets of the Group to prevent and detect frauds and other irregularities.





FINANCIAL Statements



DIRECTORS' Report FOR YEAR ENDED 31 JULY 2007

The Directors have pleasure in submitting their report and the audited financial statements of the Group and of the Company for the year ended 31 July 2007.

Principal Activities

The principal activity of the Company is investment holding, whilst the principal activities of the subsidiaries are stated in Note 5 to the financial statements. There has been no significant change in the nature of these activities during the financial year.

Results

	GROUP RM'000	COMPANY RM'000
Profit/(Loss) for the year attributable to shareholders of the Company	57,160	(687)

Reserves and Provisions

There were no material transfers to or from reserves and provisions during the year under review except as disclosed in the financial statements.

Dividends

No dividend was paid during the year and the Directors do not recommend any dividend to be paid for the year under review.

Directors of the Company

Directors who served since the date of the last report are:-

Dato' Mokhzani bin Mahathir
Zainal Rashid bin Mokhtar
Chong Hin Loon
Yeow Kheng Chew
Cher Lee Kiat
Azmi bin Ismail
Mohd Adzahar bin Abdul Wahid

Directors' Interest

The holdings and deemed holdings in the ordinary shares of the Company and of its related corporations (other than wholly-owned subsidiaries) of those who were Directors at year end as recorded in the Register of Directors' Shareholdings are as follows:-

	NUMBER OF ORDINARY SHARES OF RM0.10 EACH			
	AT 1.8.2006	BOUGHT	SOLD	AT 31.7.2007
Shareholdings in which Directors have direct interest				
The Company				
Dato' Mokhzani bin Mahathir	—	2,075,000	—	2,075,000
Zainal Rashid bin Mokhtar	—	1,520,722	300,000	1,220,722
Chong Hin Loon	80,000,000	4,300,000	10,500,000	73,800,000
Yeow Kheng Chew	—	3,375,000	—	3,375,000
Cher Lee Kiat	—	10,514,000	5,014,000	5,500,000
Azmi bin Ismail	—	300,000	—	300,000
Mohd Adzahar bin Abdul Wahid	—	300,000	300,000	—
Shareholdings in which Directors have indirect interest				
The Company				
Dato' Mokhzani bin Mahathir	391,120,000	80,000,000	47,143,621	423,976,379
Cher Lee Kiat	45,720,000	9,144,000	34,918,400	19,945,600

By virtue of Khasera Baru Sdn. Bhd. owning 423,976,379 shares representing 47.56% equity interest in the Company, Dato' Mokhzani bin Mahathir is deemed to have interests in the shares of the Company.

By virtue of Best Wide Holdings Sdn. Bhd. owning 19,945,600 shares representing 2.24% equity interest in the Company, Cher Lee Kiat is deemed to have interests in the shares of the Company.

By virtue of their interest in shares of the Company, Dato' Mokhzani bin Mahathir, Zainal Rashid bin Mokhtar, Chong Hin Loon, Yeow Kheng Chew and Cher Lee Kiat are also deemed to have interest in all subsidiaries during the financial year to the extent that Kencana Petroleum Berhad has an interest. Details of their deemed shareholding in a non-wholly owned subsidiary is as follows:-

	NUMBER OF ORDINARY SHARES OF RM1.00 EACH			
	AT 1.8.2006	BOUGHT	SOLD	AT 31.7.2007
Kencana Steelworks Sdn. Bhd.	700	—	—	700

Directors' Interest (continued)

The options granted to eligible Directors over unissued ordinary shares of the Company pursuant to the Employees' Share Option Scheme ("ESOS") are set out below:-

	NUMBER OF OPTIONS OVER ORDINARY SHARES OF RM0.10 EACH			
	AT 1.8.2006	GRANTED	EXERCISED	AT 31.7.2007
Dato' Mokhzani bin Mahathir	—	4,150,000	2,075,000	2,075,000
Chong Hin Loon	—	7,600,000	4,300,000	3,300,000
Yeow Kheng Chew	—	6,750,000	3,375,000	3,375,000
Cher Lee Kiat	—	3,500,000	1,750,000	1,750,000

Zainal Rashid bin Mokhtar, Azmi bin Ismail and Mohd Adzahar bin Abdul Wahid did not have any entitlement under the Company's Employees' Share Option Scheme ("ESOS") during the financial year.

Directors' Benefits

Since the end of the previous financial year, no Director of the Company has received nor become entitled to receive any benefit (other than a benefit included in the aggregate amount of emoluments received or due and receivable by the Directors as shown in the financial statements of the Company or the fixed salary of a full time employee of the Company or of related companies) by reason of a contract made by the Company or a related corporation with the Director or with a firm of which the Director is a member, or with a company in which the Director has a substantial financial interest.

There were no arrangements during and at the end of the financial year which had the object of enabling Directors of the Company to acquire benefits by means of the acquisition of shares in or debentures of the Company or any other body corporate other than the entitlements of Dato' Mokhzani bin Mahathir, Chong Hin Loon, Yeow Kheng Chew and Cher Lee Kiat to subscribe for new ordinary shares of the Company under the Employees' Share Option Scheme ("ESOS").

Issue of Shares

At an Extraordinary General Meeting of the Company held on 11 October 2006, the shareholders of the Company approved the issuance of 80,000,000 new ordinary shares of RM0.10 each in the Company at an issue price of RM0.25 per ordinary share via the capitalisation of advances from a shareholder, Khasera Baru Sdn. Bhd. amounting to RM20,000,000.

Subsequently, at an Extraordinary General Meeting of the Company held on 27 October 2006, the shareholders of the Company approved the issuance of 200,000,000 new ordinary shares of RM0.10 each through public issue at an issue price of RM0.41 per ordinary share for cash, for the purposes as stated in the prospectus dated 21 November 2006.

The entire issued and paid-up share capital of the Company comprising 880,000,000 ordinary shares of RM0.10 each was listed and quoted on the Main Board of Bursa Malaysia Securities Berhad on 15 December 2006.

On 24 January 2007, the Company issued 11,500,000 new ordinary shares of RM0.10 each for cash arising from the exercise of employees' share options at the exercise price of RM0.41 per ordinary share.

There were no other changes in the authorised, issued and paid-up capital of the Company during the financial year.

Options Granted Over Unissued Shares

No options were granted to any person to take up unissued shares of the Company during the financial year apart from the issue of options pursuant to the Employees' Share Option Scheme ("ESOS").

At an Extraordinary General Meeting held on 11 October 2006, the shareholders approved the establishment of an ESOS of not more than 5% of the issued share capital of the Company, to eligible Directors and employees of the Group.

The main features of the ESOS Scheme are as follows:-

(i) The maximum number of approved unissued new ordinary shares of RM0.10 each available for allotment under the ESOS Scheme shall not exceed in aggregate five per cent (5%) of the issued and paid-up share capital of Company at any point in time during the duration of the ESOS Scheme;

(ii) Save for Directors, the eligible employees are those confirmed full time employees of the Group and who have served for a continuous period of at least one (1) year and the employment must have been confirmed on the offer date;

(iii) Not more than 50% of the shares available under the Scheme shall be allocated, in aggregate, to Executive Director and senior management of the Group with the balance of the shares available under the Scheme to be allocated to the remainder of the eligible participants. For the purpose of the ESOS Bye-Law, the "senior management" shall be determined by the Option Committee at its sole and absolute discretion upon the commencement of the Scheme;

(iv) Not more than 10% of the shares available under the Scheme shall be allocated to any individual eligible participant, who, either singly or collectively through persons connected with him/her (as defined under the Listing Requirements) holds 20% or more in the issued and paid-up capital of the Company;

(v) The ESOS Committee may at its sole and absolute discretion at any time introduce additional categories of eligible participants which it shall deem necessary to introduce during the duration of the Scheme;

(vi) Grantee shall be allowed to exercise the Options granted to him in full or in part during the option period in such manner and subject to such conditions as stipulated in the Offer, or such other period that may be stipulated by the Option Committee, during his lifetime whilst he is in the employment of any company in the Group. The Grantee may exercise all or any part of the rights under Options in whole or in part, provided that any partial exercise of an Option shall be in multiples of one hundred (100) shares or the minimum board lot a prescribed by Bursa Malaysia Securities Berhad from time to time;

(vii) The exercise price shall be based on the weighted average market price of the shares of the Company for the five (5) market days immediately preceding the offer date subject to a discount of not more than ten per cent (10%) or at the Option Committee's discretion, provided the exercise price shall in no event be less than the par value of the shares;

(viii) The new shares to be allotted upon the exercise of the Option shall, upon allotment and issue, rank pari passu in all respects with the existing issued and paid-up shares, except that the new shares will not entitle their holders to any dividend, right, allotment and/or any other distributions, the Entitlement Date of which is prior to the date of allotment of the said shares. The new shares will be subject to all the provisions of the Articles of Association of the Company.

Options Granted Over Unissued Shares (continued)

The options offered to take up the unissued ordinary shares of RM0.10 each and the exercise prices are as follows:-

		NUMBER OF OPTIONS OVER ORDINARY SHARES OF RM0.10 EACH			
DATE OF OFFER	EXERCISE PRICE	AT 1.8.2006	GRANTED	EXERCISED	AT 31.7.2007
6.12.2006	RM0.41	—	11,500,000	11,500,000	—
6.12.2006	RM0.50	—	10,500,000	—	10,500,000

Other Statutory Information

Before the balance sheets and income statements of the Group and of the Company were made out, the Directors took reasonable steps to ascertain that:-

(i) all known bad debts have been written off and adequate provision made for doubtful debts, and

(ii) all current assets have been stated at the lower of cost and net realisable value.

At the date of this report, the Directors are not aware of any circumstances:-

(i) that would render the amount written off for bad debts, or the amount of the provision for doubtful debts, in the Group and in the Company inadequate to any substantial extent, or

(ii) that would render the value attributed to the current assets in the Group and in the Company financial statements misleading, or

(iii) which have arisen which render adherence to the existing method of valuation of assets or liabilities of the Group and of the Company misleading or inappropriate, or

(iv) not otherwise dealt with in this report or the financial statements, that would render any amount stated in the financial statements of the Group and of the Company misleading.

At the date of this report, there does not exist:-

(i) any charge on the assets of the Group or of the Company that has arisen since the end of the financial year and which secures the liabilities of any other person, or

(ii) any contingent liability in respect of the Group or of the Company that has arisen since the end of the financial year.

No contingent liability or other liability of any company in the Group has become enforceable, or is likely to become enforceable within the period of twelve months after the end of the financial year which, in the opinion of the Directors, will or may substantially affect the ability of the Group and of the Company to meet their obligations as and when they fall due.

In the opinion of the Directors, except for the excess income which represents the fair value of net assets acquired over the acquisition costs in relation to the Company's acquisition of the entire equity interest of Kencana Bestwide Sdn. Bhd., amounting to RM7,886,000 as disclosed in Note 16 of the financial statements, the results of the operations of the Group and of the Company for the financial year ended 31 July 2007 have not been substantially affected by any item, transaction or event of a material and unusual nature nor has any such item, transaction or event occurred in the interval between the end of that financial year and the date of this report.

Significant Event

The Company was officially listed on the Main Board of Bursa Malaysia Securities Berhad on 15 December 2006.

Subsequent Events

(i) On 21 August 2007, Kencana HL Sdn. Bhd., a wholly-owned subsidiary of the Company entered into a Share Sale Agreement to acquire 10,000,000 ordinary shares of RM1.00 each in Torsco Sdn. Bhd. ("Torsco"), representing 100% of the issued and paid-up share capital of Torsco from IJM Corporation Berhad, for a purchase consideration of RM74,624,582, payable in cash. The proposed acquisition is conditional upon approvals being obtained from the relevant authorities and the Company's shareholders in an extraordinary general meeting.

(ii) The Company incorporated a wholly-owned subsidiary, Kencana Petroleum Ventures Sdn. Bhd. on 5 September 2007. The intended principal activity of Kencana Petroleum Ventures Sdn. Bhd. is investment holding, management and related services of oil and gas industry.

(iii) On 13 September 2007, the Company announced the following proposed corporate exercise:-

    (i) private placement of up to 10% of the issued and paid-up share capital of the Company;

    (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; and

    (iii) amendments to the Memorandum and Articles of Association of the Company.

    The proposals are conditional upon approvals being obtained from the relevant authorities and the Company's shareholders in an extraordinary general meeting.

(iv) Kencana Petroleum Ventures Sdn. Bhd., a wholly-owned subsidiary of the Company which was incorporated on 5 September 2007 had on 19 September 2007 entered into the Shareholders' Agreement with Mermaid Drilling (Singapore) Pte. Ltd. in relation to the proposed formation of a company to be known as Kencana Mermaid Drilling Sdn. Bhd. to carry on the business of offshore drilling and drilling related services in the oil and gas industry in Malaysia. Kencana Mermaid Drilling Sdn. Bhd. would be incorporated in Malaysia as a private company limited by shares under the Companies Act, 1965 with an authorised and initial paid up share capital of RM100,000 comprising of 100,000 ordinary shares of RM1.00 each. Kencana Petroleum Ventures Sdn. Bhd. and Mermaid Drilling (Singapore) Pte. Ltd. would subscribe 60% and 40% of the shareholding of Kencana Mermaid Drilling Sdn. Bhd. respectively.

Auditors

The auditors, Messrs. KPMG, have indicated their willingness to accept re-appointment.

Signed on behalf of the Board of Directors in accordance with a resolution of the Directors:-

Dato' Mokhzani bin Mahathir

Zainal Rashid bin Mokhtar

Kuala Lumpur
Date: 12 October 2007

STATEMENT BY Directors PURSUANT TO SECTION 169(15) OF THE COMPANIES ACT, 1965

In the opinion of the Directors, the financial statements set out on pages 60 to 98 are drawn up in accordance with the provisions of the Companies Act, 1965 and applicable approved accounting standards for entities other than private entities issued by the Malaysian Accounting Standards Board so as to give a true and fair view of the state of affairs of the Group and of the Company at 31 July 2007 and of the results of their operations and cash flows for the year ended on that date.

Signed in accordance with a resolution of the Directors:-

Dato' Mokhzani bin Mahathir

Zainal Rashid bin Mokhtar

Kuala Lumpur,
Date: 12 October 2007

STATUTORY Declaration PURSUANT TO SECTION 169(16) OF THE COMPANIES ACT, 1965

I, **Yeow Kheng Chew**, the Director primarily responsible for the financial management of Kencana Petroleum Berhad, do solemnly and sincerely declare that the financial statements set out on pages 60 to 98 are, to the best of my knowledge and belief, correct and I make this solemn declaration conscientiously believing the same to be true, and by virtue of the provisions of the Statutory Declarations Act, 1960.

Subscribed and solemnly declared by the abovenamed in Kuala Lumpur on 12 October 2007.

Yeow Kheng Chew

REPORT OF THE

Auditors TO THE MEMBERS OF KENCANA PETROLEUM BERHAD

We have audited the financial statements set out on pages 60 to 98. The preparation of the financial statements is the responsibility of the Company's Directors.

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

We conducted our audit in accordance with approved Standards on Auditing in Malaysia. Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the financial statements are free of material misstatement. An audit includes examining, on a test basis, evidence supporting the amounts and disclosures in the financial statements. An audit also includes assessing the accounting principles used and significant estimates made by the Directors, as well as evaluating the overall financial statements presentation. We believe our audit provides a reasonable basis for our opinion.

In our opinion:-

(a) the financial statements are properly drawn up in accordance with the provisions of the Companies Act, 1965 and applicable approved accounting standards for entities other than private entities issued by the Malaysian Accounting Standards Board so as to give a true and fair view of:-

   (i) the state of affairs of the Group and of the Company at 31 July 2007 and of the results of their operations and cash flows for the year ended on that date; and

   (ii) the matters required by Section 169 of the Companies Act, 1965 to be dealt with in the financial statements of the Group and of the Company; and

(b) the accounting and other records and the registers required by the Companies Act, 1965 to be kept by the Company and its subsidiaries have been properly kept in accordance with the provisions of the said Act.

We are satisfied that the financial statements of the subsidiaries that have been consolidated with the Company's financial statements are in form and content appropriate and proper for the purposes of the preparation of the consolidated financial statements and we have received satisfactory information and explanations required by us for those purposes.

The audit reports on the financial statements of the subsidiaries were not subject to any qualification and did not include any comment made under subsection (3) of Section 174 of the Act.

KPMG
Firm Number: AF 0758
Chartered Accountants

Foong Mun Kong
Partner
Approval Number: 2613/12/08(J)

Kuala Lumpur,
Date: 12 October 2007

BALANCE Sheets AT 31 JULY 2007

	NOTE	GROUP 2007 RM'000	COMPANY 2007 RM'000	COMPANY 2006 RM'000
Assets				
Property, plant and equipment	3	181,390	—	—
Goodwill	4	24,239	—	—
Investment in subsidiaries/investments	5	—	100,000	60,000
Investments in associates	6	1,232	—	—
Investment in jointly controlled entities	7	4	—	—
Receivables, deposits and prepayments	8	—	36,930	12,999
Total non-current assets		206,865	136,930	72,999
Receivables, deposits and prepayments	8	211,703	—	1,000
Current tax assets		753	—	—
Cash and cash equivalents	9	163,503	25,295	6,001
Total current assets		375,959	25,295	7,001
Total assets		582,824	162,225	80,000
Equity				
Share capital	10	89,150	89,150	60,000
Reserves	11	73,633	73,633	—
Retained earnings/(Accumulated losses)		57,153	(694)	(7)
Total equity		219,936	162,089	59,993
Liabilities				
Loans and borrowings	13	52,833	—	—
Deferred tax liabilities	14	14,607	—	—
Payables and accruals	15	—	—	20,000
Total non-current liabilities		67,440	—	20,000
Loans and borrowings	13	40,447	—	—
Payables and accruals	15	254,274	132	7
Tax liabilities		727	4	—
Total current liabilities		295,448	136	7
Total liabilities		362,888	136	20,007
Total equity and liabilities		582,824	162,225	80,000

The notes on pages 65 to 98 are an integral part of these financial statements.

INCOME Statements FOR THE YEAR ENDED 31 JULY 2007

	NOTE	GROUP 2007 RM'000	COMPANY 2007 RM'000	COMPANY 2006 RM'000
Revenue		824,283	—	—
Costs of services rendered		(728,202)	—	—
Gross profit		96,081	—	—
Other income		9,941	—	—
Administrative expenses		(24,858)	(1,357)	(3)
Results from operating activities		81,164	(1,357)	(3)
Interest income		1,605	680	—
Finance costs		(5,157)	—	—
Operating profit/(loss)	16	77,612	(677)	(3)
Share of profit of associates		290	—	—
Share of profit of jointly controlled entities		16	—	—
Profit/(Loss) before tax		77,918	(677)	(3)
Tax expense	18	(20,758)	(10)	—
Profit/(Loss) for the year		57,160	(687)	(3)
Basic earnings per ordinary share (sen)	19	6.88		
Diluted earnings per ordinary share (sen)	19	6.81		

The notes on pages 65 to 98 are an integral part of these financial statements.

STATEMENT OF
Changes in Equity FOR THE YEAR ENDED 31 JULY 2007

GROUP	SHARE CAPITAL RM'000	SHARE PREMIUM RM'000	SHARE OPTION RESERVE RM'000	RETAINED EARNINGS RM'000	TOTAL EQUITY RM'000
	<---------- NON-DISTRIBUTABLE		---------->	DISTRIBUTABLE	
At 20 September 2006 (Note 5)	60,000	—	—	(7)	59,993
Profit for the period	—	—	—	57,160	57,160
Capitalisation of amount due to Khasera Baru Sdn. Bhd.	8,000	12,000	—	—	20,000
Shares issued	20,000	62,000	—	—	82,000
Share options exercised	1,150	3,565	—	—	4,715
Listing expenses	—	(4,630)	—	—	(4,630)
Share-based payments	—	—	698	—	698
Transfer to share premium for share options exercised	—	575	(575)	—	—
At 31 July 2007	89,150	73,510	123	57,153	219,936
	Note 10				

COMPANY	SHARE CAPITAL RM'000	SHARE PREMIUM RM'000	SHARE OPTION RESERVE RM'000	ACCUMULATED LOSSES RM'000	TOTAL EQUITY RM'000
	<---------- NON-DISTRIBUTABLE		---------->	DISTRIBUTABLE	
At 1 August 2005	*	—	—	(4)	(4)
Loss for the year	—	—	—	(3)	(3)
Shares issued	60,000	—	—	—	60,000
At 31 July 2006	60,000	—	—	(7)	59,993
Loss for the year	—	—	—	(687)	(687)
Capitalisation of amount due to Khasera Baru Sdn. Bhd.	8,000	12,000	—	—	20,000
Shares issued	20,000	62,000	—	—	82,000
Share options exercised	1,150	3,565	—	—	4,715
Listing expenses	—	(4,630)	—	—	(4,630)
Share-based payments	—	—	698	—	698
Transfer to share premium for share options exercised	—	575	(575)	—	—
At 31 July 2007	89,150	73,510	123	(694)	162,089
	Note 10				

* Denotes RM2

The notes on pages 65 to 98 are an integral part of these financial statements.

CASH FLOW Statements FOR THE YEAR ENDED 31 JULY 2007

		GROUP		COMPANY
		2007	2007	2006
		RM'000	RM'000	RM'000
Cash flows from operating activities				
Profit/(Loss) before tax		77,918	(677)	(3)
Adjustments for:-				
Depreciation of property, plant and equipment		5,839	—	—
Excess fair value of net assets over acquisition costs		(7,886)	—	—
Finance costs		5,157	—	—
Gain on disposal of other investment		(632)	—	—
Interest income		(1,605)	(680)	—
Loss on disposal of property, plant and equipment		585	—	—
Share based payments		698	698	—
Share of profit of associates		(290)	—	—
Share of profit of jointly controlled entities		(16)	—	—
Operating profit/(loss) before changes in working capital		79,768	(659)	(3)
Changes in receivables, deposits and prepayments		(109,871)	(19,000)	(1,000)
Changes in payables and accruals		141,138	(19,875)	3
Cash generated from/(used in) operations		111,035	(39,534)	(1,000)
Income taxes paid		(17,368)	(6)	—
Interest paid		(5,157)	—	—
Net cash generated from/(used in) operating activities		88,510	(39,540)	(1,000)
Cash flows from investing activities				
Acquisition of shares in an associate		*	—	—
Interest received		1,605	680	—
Net cash inflow from acquisition of subsidiaries (Note 25)		34,538	—	—
Proceeds from disposal of investment		687	—	—
Proceeds from disposal of property, plant and equipment		1,036	—	—
Purchase of property, plant and equipment	(i)	(21,029)	—	—
Net cash generated from investing activities		16,837	—	—
Cash flows from financing activities				
Advances from Khasera Baru Sdn. Bhd.		—	—	20,000
Long term advances		—	(23,931)	(12,999)
Listing expenses		(4,630)	(4,630)	—
Increase in pledged deposits placed with licensed banks		(61,314)	(25,000)	—
Net repayment of borrowings		(30,233)	—	—
Shares issued		86,715	86,715	—
Net cash (used in)/generated from financing activities		(9,462)	33,154	7,001
Net increase/(decrease) in cash and cash equivalents		95,885	(5,706)	6,001
Cash and cash equivalents at 1 August		6,001	6,001	**
Cash and cash equivalents at 31 July	(ii)	101,886	295	6,001

** Denotes RM250*
*** Denotes RM2*

(i) Purchase of property, plant and equipment

During the year, the Group acquired property, plant and equipment with an aggregate cost of RM46,992,000, of which RM25,963,000 was acquired by means of hire purchases.

(ii) Cash and cash equivalents

Cash and cash equivalents included in the cash flow statements comprise the following balance sheet amounts:-

	GROUP	COMPANY	
	2007 RM'000	2007 RM'000	2006 RM'000
Cash and bank balances (Note 9)	83,344	295	6,001
Deposits placed with licensed banks (Note 9)	80,159	25,000	—
Bank overdrafts (Note 13)	(303)	—	—
	163,200	25,295	6,001
Less:- Deposits pledged (Note 9)	(61,314)	(25,000)	—
	101,886	295	6,001

The notes on pages 65 to 98 are an integral part of these financial statements.

NOTES TO THE
Financial Statements

Kencana Petroleum Berhad is a public limited liability company, incorporated and domiciled in Malaysia and is listed on the Main Board of Bursa Malaysia Securities Berhad. The addresses of its registered office and principal place of business are as follows:-

Registered office
Suite 405, 4th Floor
Magnum Plaza
128 Jalan Pudu
55100 Kuala Lumpur

Principal place of business
Lot 50, Jalan BRP 8/2
Persiaran Bukit Rahman Putra 3
Perusahaan Bukit Rahman Putra
47000 Sungai Buloh
Selangor Darul Ehsan

The consolidated financial statements as at and for the year ended 31 July 2007 comprise the Company and its subsidiaries (together referred to as the Group) and the Group's interest in associates and jointly controlled entities. The financial statements of the Company as at and for the year ended 31 July 2007 do not include other entities.

The Company is principally engaged in investment holding, whilst the principal activities of the subsidiaries are stated in Note 5 to the financial statements. There has been no significant change in the nature of these activities during the financial year.

Kencana Petroleum Berhad obtained control over the financial and operating policies of its subsidiaries, Kencana HL Sdn. Bhd. and Kencana Bestwide Sdn. Bhd. on 20 September 2006, which is the date that all the conditions set in the Sale of Shares Agreement dated 28 September 2004 and Supplementary Agreement dated 9 August 2006 were met. In line with the above, the results of Kencana Petroleum Berhad Group for the financial year ended 31 July 2007 takes into account the results of the subsidiaries from 20 September 2006 to 31 July 2007.

1. Basis of preparation

(a) Statement of compliance

The financial statements of the Group and of the Company have been prepared in accordance with applicable Financial Reporting Standards (FRSs), accounting principles generally accepted and the provisions of the Companies Act, 1965 in Malaysia.

The MASB has issued the following FRSs and Interpretations that are effective for annual periods beginning after 1 January 2006, and that have not been applied in preparing these financial statements:-

Standard/Interpretation	Effective date
FRS 117, *Leases*	1 October 2006
FRS 124, *Related Party Disclosures*	1 October 2006
FRS 139, *Financial Instruments: Recognition and Measurement*	To be announced
Amendment to FRS 119_{2004}, *Employee Benefits – Actuarial Gains and Losses, Group Plans and Disclosures*	1 January 2007

1. Basis of Preparation (continued)

(a) Statement of compliance (continued)

Standard/Interpretation	Effective date
FRS 6, *Exploration for and Evaluation of Mineral Resources*	1 January 2007
Amendment to FRS 121, *The Effects of Changes in Foreign Exchange Rates – Net Investment in a Foreign Operation*	1 July 2007
IC Interpretation 1, *Changes in Existing Decommissioning, Restoration and Similar Liabilities*	1 July 2007
IC Interpretation 2, *Members' Shares in Co-operative Entities and Similar Instruments*	1 July 2007
IC Interpretation 5, *Rights to Interests arising from Decommissioning, Restoration and Environmental Rehabilitation Funds*	1 July 2007
IC Interpretation 6, *Liabilities arising from Participating in a Specific Market – Waste Electrical and Electronic Equipment*	1 July 2007
IC Interpretation 7, *Applying the Restatement Approach under FRS 129_{2004} Financial Reporting in Hyperinflationary Economies*	1 July 2007
IC Interpretation 8, *Scope of FRS 2*	1 July 2007
FRS 107, *Cash Flow Statements*	1 July 2007
FRS 111, *Construction Contracts*	1 July 2007
FRS 112, *Income Taxes*	1 July 2007
FRS 118, *Revenue*	1 July 2007
FRS 120, *Accounting for Government Grants and Disclosure of Government Assistance*	1 July 2007
FRS 134, *Interim Financial Reporting*	1 July 2007
FRS 137, *Provisions, Contingent Liabilities and Contingent Assets*	1 July 2007

The Group and the Company plan to apply FRS 117, FRS 124 and the Amendment to FRS 119 initially for the annual period beginning 1 August 2007 and to apply the rest of the above-mentioned FRSs (except for FRS 6 as explained below and FRS 139 which its effective date has yet to be announced) and Interpretations for the annual period beginning 1 August 2008.

The impact of applying FRS 117, FRS 124 and FRS 139 on the financial statements upon first adoption of this standard as required by paragraph 30(b) of FRS 108, *Accounting Policies, Changes in Accounting Estimates and Errors* is not disclosed by virtue of the exemptions given in the respective standards.

FRS 6 and FRS 134 are not applicable to the Group and the Company. Hence, no further disclosure is warranted.

FRS 112 addresses the accounting treatment for income taxes. However, FRS 112 does not prescribe the accounting treatment for reinvestment allowance and investment tax allowance. In the current accounting policy for income taxes, reinvestment allowance or investment tax allowance is treated as the tax base of an asset. The Group and the Company have not yet determined whether this accounting policy needs to be changed.

1. Basis of Preparation (continued)

(a) Statement of compliance (continued)

The initial application of the other standards and interpretations are not expected to have any material impact on the financial statements of the Group and the Company.

The financial statements were approved by the Board of Directors on 12 October 2007.

(b) Basis of measurement

The financial statements have been prepared on the historical cost basis.

(c) Functional and presentation currency

These financial statements are presented in Ringgit Malaysia (RM), which is the Company's functional currency. All financial information presented in RM has been rounded to the nearest thousand, unless otherwise stated.

(d) Use of estimates and judgements

The preparation of financial statements requires management to make judgements, estimates and assumptions that affect the application of accounting policies and the reported amounts of assets, liabilities, income and expenses. Actual results may differ from these estimates.

Estimates and underlying assumptions are reviewed on an ongoing basis. Revisions to accounting estimates are recognised in the period in which the estimate is revised and in any future periods affected.

In particular, information about significant areas of estimation uncertainty and critical judgements in applying accounting policies that have the most significant effect on the amounts recognised in the financial statements are described in the following notes:-

- Note 4 – impairment test of intangible assets
- Note 12 – recognition of share-based payments
- Note 14 – recognition of unutilised tax loss carry-forwards and unabsorbed capital allowances

2. Significant Accounting Policies

The accounting policies set out below have been applied consistently to all periods presented in these financial statements, and have been applied consistently by Group entities, unless otherwise stated.

(a) Basis of consolidation

(i) Subsidiaries

Subsidiaries are entities, including unincorporated entities, controlled by the Group. Control exists when the Group has the ability to exercise its power to govern the financial and operating policies of an entity so as to obtain benefits from its activities. In assessing control, potential voting rights that presently are exercisable are taken into account.

The financial statements of subsidiaries are included in the consolidated financial statements from the date that control commences until the date that control ceases.

2. Significant Accounting Policies (continued)

(a) Basis of consolidation (continued)

(i) Subsidiaries (continued)

Investments in subsidiaries are stated in the Company's balance sheet at cost less impairment losses, unless the investment is classified as held for sale (or included in a disposal group that is classified as held for sale).

Minority interests at the balance sheet date, being the portion of the net assets of subsidiaries attributable to equity interests that are not owned by the Company, whether directly or indirectly through subsidiaries, are presented in the consolidated balance sheet and statement of changes in equity within equity, separately from equity attributable to the equity shareholders of the Company. Minority interests in the results of the Group are presented on the face of the consolidated income statement as an allocation of the total profit or loss for the year between minority interests and the equity shareholders of the Company.

Where losses applicable to the minority exceed the minority's interest in the equity of a subsidiary, the excess, and any further losses applicable to the minority, are charged against the Group's interest except to the extent that the minority has a binding obligation to, and is able to, make additional investment to cover the losses. If the subsidiary subsequently reports profits, the Group's interest is allocated all such profits until the minority's share of losses previously absorbed by the Group has been recovered.

(ii) Associates

Associates are entities, including unincorporated entities, in which the Group has significant influence, but not control, over the financial and operating policies.

Associates are accounted for in the consolidated financial statements using the equity method unless it is classified as held for sale (or included in a disposal group that is classified as held for sale). The consolidated financial statements include the Group's share of the income and expenses of the equity accounted associates, after adjustments to align the accounting policies with those of the Group, from the date that significant influence commences until the date that significant influence ceases.

When the Group's share of losses exceeds its interest in an equity accounted associate, the carrying amount of that interest (including any long-term investments) is reduced to nil and the recognition of further losses is discontinued except to the extent that the Group has an obligation or has made payments on behalf of the investee.

Investments in associates are stated in the Company's balance sheet at cost less impairment losses, unless the investment is classified as held for sale (or included in a disposal group that is classified as held for sale).

(iii) Joint ventures

Jointly-controlled entities

Joint ventures are those entities over whose activities the Group has joint control, established by contractual agreement and requiring unanimous consent for strategic financial and operating decisions.

Joint ventures are accounted for in the consolidated financial statements using the equity method unless it is classified as held for sale (or included in a disposal group that is classified as held for sale). The consolidated financial statements include the Group's share of the income and expenses of the equity accounted joint ventures, after adjustments to align the accounting policies with those of the Group, from the date that joint control commences until the date that joint control ceases.

2. Significant Accounting Policies (continued)

(a) Basis of consolidation (continued)

(iii) Joint ventures (continued)

Jointly-controlled entities (continued)

When the Group's share of losses exceeds its interest in an equity accounted joint venture, the carrying amount of that interest (including any long-term investments) is reduced to nil and the recognition of further losses is discontinued except to the extent that the Group has an obligation or has made payments on behalf of the joint venture.

Investments in joint ventures are stated in the Company's balance sheet at cost less impairment losses, unless the investment is classified as held for sale (or included in a disposal group that is classified as held for sale).

(iv) Transactions eliminated on consolidation

Intra-group balances, and any unrealised income and expenses arising from intra-group transactions, are eliminated in preparing the consolidated financial statements.

Unrealised gains arising from transactions with equity accounted investees are eliminated against the investment to the extent of the Group's interest in the investee. Unrealised losses are eliminated in the same way as unrealised gains, but only to the extent that there is no evidence of impairment.

(b) Foreign currency

Foreign currency transactions

Transactions in foreign currencies are translated to the respective functional currencies of Group entities at exchange rates at the dates of the transaction.

Monetary assets and liabilities denominated in foreign currencies at the balance sheet date are retranslated to the functional currency at the exchange rate at that date. Non-monetary assets and liabilities denominated in foreign currencies that are measured at fair value are retranslated to the functional currency at the exchange rate at the date that the fair value was determined. Foreign currency differences arising on retranslation are recognised in the income statement.

(c) Property, plant and equipment

(i) Recognition and measurement

Items of property, plant and equipment are stated at cost less accumulated depreciation and impairment losses.

Cost includes expenditures that are directly attributable to the acquisition of the asset. The cost of self-constructed assets includes the cost of materials and direct labour, any other costs directly attributable to bringing the asset to working condition for its intended use, and the costs of dismantling and removing the items and restoring the site on which they are located. Purchased software that is integral to the functionality of the related equipment is capitalised as part of that equipment.

The cost of property, plant and equipment recognised as a result of a business combination is based on fair value at acquisition date. The fair value of property is the estimated amount for which a property could be exchanged on the date of valuation between a willing buyer and a willing seller in an arm's length transaction after proper marketing wherein the parties had each acted knowledgeably, prudently and without compulsion. The fair value of other items of plant and equipment is based on the quoted market prices for similar items.

2. Significant Accounting Policies (continued)

(c) Property, plant and equipment (continued)

(i) Recognition and measurement (continued)

When significant parts of an item of property, plant and equipment have different useful lives, they are accounted for as separate items (major components) of property, plant and equipment.

(ii) Subsequent costs

The cost of replacing part of an item of property, plant and equipment is recognised in the carrying amount of the item if it is probable that the future economic benefits embodied within the part will flow to the Group and its cost can be measured reliably. The carrying amount of those parts that are replaced is derecognised. The costs of the day-to-day servicing of property, plant and equipment are recognised in the income statement as incurred.

(iii) Depreciation

Depreciation is recognised in the income statement on a straight-line basis over the estimated useful lives of each part of an item of property, plant and equipment. Leased assets are depreciated over the shorter of the lease term and their useful lives. Freehold land is not depreciated. Property, plant and equipment under construction are not depreciated until the assets are ready for their intended use. Depreciation commences when the assets are ready for their intended use.

The estimated useful lives for the current and comparative periods are as follows:-

Buildings and structures	50 years
Computers, equipment, air conditioners, furniture and fixtures	5 – 10 years
Motor vehicles	5 years
Plant and machinery	10 years

The depreciable amount is determined after deducting the residual value.

Depreciation methods, useful lives and residual values are reassessed at the reporting date.

(d) Intangible assets

Goodwill

Goodwill/(negative goodwill) arises on the acquisition of subsidiaries, associates and joint ventures.

Goodwill represents the excess of the cost of the acquisition over the Group's interest in the net fair value of the identifiable assets, liabilities and contingent liabilities of the acquiree.

Goodwill is measured at cost and is tested for impairment at least annually or more frequently when there is objective evidence of impairment. When the excess is negative (negative goodwill), it is recognised immediately in the income statement.

Goodwill is allocated to cash-generating units and is tested annually for impairment or more frequently if events or changes in circumstances indicate that it might be impaired.

In respect of equity accounted investees, the carrying amount of goodwill is included in the carrying amount of the investment. The entire carrying amount of the investment is tested for impairment when there is objective evidence of impairment.

2. Significant Accounting Policies (continued)

(e) Receivables

Receivables are initially recognised at their cost when the contractual right to receive cash or another financial asset from another entity is established.

Subsequent to initial recognition, receivables are stated at cost less allowance for doubtful debts.

Receivables are not held for the purpose of trading.

(f) Amount due from/(to) contract customers

Amount due from contract customers represents the gross unbilled amount expected to be collected from customers for contract work performed to date. It is measured at cost plus profit recognised to date less progress billing and recognised losses. Cost includes all expenditure related directly to specific projects and an allocation of fixed and variable overheads incurred in the Group's contract activities based on normal operating capacity.

Amount due from contract customers is presented as part of receivables, deposits and prepayments in the balance sheet. Where progress billings exceed the aggregate amount due from contract customers plus attributable profit less foreseeable losses, the net credit balance on all such contracts is shown as amount due to contract customers as part of payables and accruals in the balance sheet.

(g) Cash and cash equivalents

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

(h) Impairment of assets

The carrying amounts of assets except for assets arising from construction contracts, deferred tax assets and financial assets are reviewed at each reporting date to determine whether there is any indication of impairment.

If any such indication exists then the asset's recoverable amount is estimated. For goodwill and intangible assets that have indefinite useful lives or that are not yet available for use, recoverable amount is estimated at each reporting date.

An impairment loss is recognised if the carrying amount of an asset or its cash-generating unit exceeds its recoverable amount. A cash-generating unit is the smallest identifiable asset group that generates cash flows that largely are independent from other assets and groups. Impairment losses are recognised in the income statement.

2. Significant Accounting Policies (continued)

(h) Impairment of assets (continued)

Impairment losses recognised in respect of cash-generating units are allocated first to reduce the carrying amount of any goodwill allocated to the units and then to reduce the carrying amount of the other assets in the unit (groups of units) on a pro rata basis. The recoverable amount of an asset or cash-generating unit is the greater of its value in use and its fair value less costs to sell. In assessing value in use, the estimated future cash flows are discounted to their present value using a pre-tax discount rate that reflects current market assessments of the time value of money and the risks specific to the asset.

An impairment loss in respect of goodwill is not reversed. In respect of other assets, impairment losses recognised in prior periods are assessed at each reporting date for any indications that the loss has decreased or no longer exists. 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 had been recognised. Reversals of impairment losses are credited to the income statement in the year in which the reversals are recognised.

(i) Share capital

Share issue expenses

Incremental costs directly attributable to issue of shares and share options classified as equity are recognised as a deduction from equity.

(j) Loans and borrowings

Loans and borrowings are stated at amortised cost with any difference between cost and redemption value being recognised in the income statement over the period of the loans and borrowings using the effective interest method.

(k) Employee benefits

(i) Short term employee benefits

Short-term employee benefit obligations in respect of salaries, annual bonuses, paid annual leave and sick leave are measured on an undiscounted basis and are expensed as the related service is provided.

A provision is recognised for the amount expected to be paid under short-term cash bonus or profit-sharing plans if the Group has a present legal or constructive obligation to pay this amount as a result of past service provided by the employee and the obligation can be estimated reliably.

The Group's contribution to the Employees Provident Fund are charged to the income statements in the year to which they relate. Once the contributions have been paid, the Group has no further payment obligations.

(ii) Share-based payment transactions

The share option programme allows Group directors and employees to acquire shares of the Company. Following the adoption of FRS 2, Share-based Payment, the grant date fair value of share options granted to employees is recognised as an employee expense, with a corresponding increase in equity, over the period in which the employees become unconditionally entitled to the options. The amount recognised as an expense is adjusted to reflect the actual number of share options that vest.

The fair value of employee stock options is measured using the Black Scholes model. Measurement inputs include share price on measurement date, exercise price of the instrument, expected volatility (based on weighted average historic volatility adjusted for changes expected due to publicly available information), weighted average expected life of the instruments and risk-free interest rate (based on government bonds). Service and non-market performance conditions attached to the transactions are not taken into account in determining fair value.

2. Significant Accounting Policies (continued)

(l) Provisions

A provision is recognised if, as a result of a past event, the Group has a present legal or constructive obligation that can be estimated reliably, and it is probable that an outflow of economic benefits will be required to settle the obligation. Provisions are determined by discounting the expected future cash flows at a pre-tax rate that reflects current market assessments of the time value of money and the risks specific to the liability.

Contingent liabilities

Where it is not probable that an outflow of economic benefits will be required, or the amount cannot be estimated reliably, the obligation is disclosed as a contingent liability, unless the probability of outflow of economic benefits is remote. Possible obligations, whose existence will only be confirmed by the occurrence or non-occurrence of one or more future events are also disclosed as contingent liabilities unless the probability of outflow of economic benefits is remote.

Where the Company enters into financial guarantee contracts to guarantee the indebtedness of other companies within its group, the Company considers these to be insurance arrangements, and accounts for them as such. In this respect, the Company treats the guarantee contract as a contingent liability until such time as it becomes probable that the Company will be required to make a payment under the guarantee.

(m) Payables

Payables are measured initially and subsequently at cost. Payables are recognised when there is a contractual obligation to deliver cash or another financial asset to another entity.

(n) Revenue

(i) Construction contracts

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

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

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

(ii) Services

Revenue from manpower services is recognised in the income statement on the accruals basis.

(iii) Dividend income

Dividend income is recognised when the right to receive payment is established.

(o) Lease payments

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

2. Significant Accounting Policies (continued)

(p) Interest income and borrowing costs

Interest income is recognised as it accrues, using the effective interest method.

All borrowing costs are recognised in the income statement using the effective interest method, in the period in which they are incurred.

(q) Tax expense

Tax expense comprises current and deferred tax. Tax expense is recognised in the income statement except to the extent that it relates to items recognised directly in equity, in which case it is recognised in equity.

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

Deferred tax is recognised using the balance sheet method, providing for temporary differences between the carrying amounts of assets and liabilities for reporting purposes and the amounts used for taxation purposes. Deferred tax is not recognised for the following temporary differences: the initial recognition of goodwill, the initial recognition of assets or liabilities in a transaction that is not a business combination and that affects neither accounting nor taxable profit (tax loss). Deferred tax is measured at the tax rates that are expected to be applied to the temporary differences when they reverse, based on the laws that have been enacted or substantively enacted by the balance sheet date.

Deferred tax liability is recognised for all taxable temporary differences.

A deferred tax asset is recognised to the extent that it is probable that future taxable profits will be available against which temporary difference can be utilised. Deferred tax assets are reviewed at each reporting date and are reduced to the extent that it is no longer probable that the related tax benefit will be realised.

Additional taxes that arise from the distribution of dividends are recognised at the same time as the liability to pay the related dividend is recognised.

(r) Earnings per share

The Group presents basic and diluted earnings per share (EPS) data for its ordinary shares. Basic EPS is calculated by dividing the profit or loss attributable to ordinary shareholders of the Company by the weighted average number of ordinary shares outstanding during the period. Diluted EPS is determined by adjusting the profit or loss attributable to ordinary shareholders and the weighted average number of ordinary shares outstanding for the effects of all dilutive potential ordinary shares, which includes share options granted to employees.

(s) Segment reporting

A segment is a distinguishable component of the Group that is engaged either in providing products or services (business segment), or in providing products or services within a particular economic environment (geographical segment), which is subject to risks and rewards that are different from those of other segments.

3. Property, Plant and Equipment

GROUP	FREEHOLD LAND AND BUILDING RM'000	FREEHOLD OFFICE PREMISES RM'000	LEASEHOLD LAND, BUILDING AND STRUCTURES RM'000	COMPUTER, EQUIPMENT, AIR-CONDITIONER, FIXTURES AND FITTINGS RM'000	MOTOR VEHICLES RM'000	PLANT AND MACHINERY RM'000	TOTAL RM'000
Cost							
Acquisition of subsidiaries	3,971	3,991	108,442	10,654	4,863	24,013	155,934
Additions	212	—	15,684	3,038	1,191	26,867	46,992
Disposals	—	—	—	(150)	(967)	(1,631)	(2,748)
At 31 July 2007	4,183	3,991	124,126	13,542	5,087	49,249	200,178
Accumulated depreciation							
Acquisition of subsidiaries	95	115	2,991	4,414	1,999	4,462	14,076
Depreciation for the year	61	53	1,105	1,444	813	2,363	5,839
Disposals	—	—	—	(29)	(661)	(437)	(1,127)
At 31 July 2007	156	168	4,096	5,829	2,151	6,388	18,788
Carrying amounts							
At 31 July 2007	4,027	3,823	120,030	7,713	2,936	42,861	181,390

Security

At 31 July 2007, the freehold land, leasehold land and building and structures of the Group with carrying amounts amounting to RM64,176,000 have been pledged to licensed banks as security for term loan facilities granted to the Group.

Titles

The issuance of document of title for six plots of land situated at Lumut Port Industrial Park, Kampung Acheh, Mukim of Lumut, District of Manjung, Perak is still pending as at the end of the financial year.

Assets under hire purchase

Included in property, plant and equipment of the Group are plant and machinery and motor vehicles acquired under hire purchase arrangements with carrying amount of RM35,640,000.

The cost and carrying value of freehold land and building, freehold office premises and leasehold land, building and structures are not segregated from building as the required records are not available.

4. Goodwill

GROUP	TOTAL RM'000
Cost	
Goodwill in subsidiaries	770
Acquisition of subsidiaries	23,469
At 31 July 2007	24,239
Impairment loss	—
Carrying amounts	
At 31 July 2007	24,239

Impairment testing for cash-generating units containing goodwill
For the purpose of impairment testing, goodwill is allocated to the subsidiaries acquired which represents the lowest level within the Group at which the goodwill is monitored for internal management purposes.

The Goodwill impairment test was based on value in use and was determined by the management.

Value in use was determined by assessing the subsidiaries' future budgets.

The value assigned to the key assumptions used in preparing the budgets represents management's assessment of future trends in the subsidiaries' principal activities and are based on internal sources (historical data).

5. Investment in Subsidiaries

	COMPANY	
	2007 RM'000	2006 RM'000
At cost:-		
Unquoted shares	100,000	60,000

Kencana HL Sdn. Bhd. and Kencana Bestwide Sdn. Bhd. became subsidiaries of Kencana Petroleum Berhad with effect from 20 September 2006, upon the Company obtaining control over the financial and operating policies of Kencana HL Sdn. Bhd. and Kencana Bestwide Sdn. Bhd. as all the conditions precedent as set out in the Sale of Shares Agreements and the Supplementary Agreements respectively were met.

During the year, the Company increased its investment in Kencana HL Sdn. Bhd., via the capitalisation of the amount due from Kencana HL Sdn. Bhd. of RM40,000,000.

5. Investment in Subsidiaries (continued)

Details of the subsidiaries are as follows:-

NAME OF SUBSIDIARIES	PRINCIPAL ACTIVITIES	COUNTRY OF INCORPORATION	EFFECTIVE OWNERSHIP INTEREST 2007 %
Kencana HL Sdn. Bhd. and its subsidiaries	Integrated engineering and fabrication of production facilities for oil and gas industry	Malaysia	100
Kencana Marine Sdn. Bhd.	Operation and management of fabrication yard	Malaysia	100
Kencana Metering Sdn. Bhd.	Metering works, process skids systems and pipeline construction	Malaysia	100
Kencana Infrastructure Sdn. Bhd.	Specialised fabrication and infrastructure construction	Malaysia	100
Kencana Steelworks Sdn. Bhd.	Dormant	Malaysia	70
Kencana Bestwide Sdn. Bhd. and its subsidiary	Engineering, Procurement, Construction (fabrication) and Commissioning (“EPCC”), design and engineering and project management	Malaysia	100
Kencana Pinewell Sdn. Bhd.	Electrical and instrumentation services	Malaysia	100

6. Investments in Associates

	GROUP	COMPANY	
	2007 RM’000	2007 RM’000	2006 RM’000
At cost:-			
Unquoted shares	280	—	—
Share of reserves	952	—	—
	1,232	—	—

6. Investments in Associates (continued)

Summary financial information on associates:-

2007	PRINCIPAL ACTIVITIES	COUNTRY OF INCORPORATION	EFFECTIVE OWNERSHIP INTEREST	REVENUE (100%) RM'000	PROFIT (100%) RM'000	TOTAL ASSETS (100%) RM'000	TOTAL LIABILITIES (100%) RM'000
BWE*@	Design and engineering services	Malaysia	30%	17,609	576	13,937	12,132
MM**@	Valve testing and maintenance	Malaysia	30%	2,727	391	2,933	447
Skidtec#	Dormant	Malaysia	25%	—	(5)	1	(5)
				20,336	962	16,871	12,574

* Best Wide Engineering (M) Sdn. Bhd.
** Matrix Maintenance Sdn. Bhd.
# Skidtec Sdn. Bhd.

@ The share of results are based on unaudited financial statements of the associates for the period from 20 September 2006 to 31 July 2007.

The Group has recognised losses relating to Skidtec Sdn. Bhd. of up to RM250 for the financial year 2007, since the Group has no obligation in respect of losses in excess of its capital contribution.

7. Investment in Jointly Controlled Entities

	GROUP 2007 RM'000	COMPANY 2007 RM'000	COMPANY 2006 RM'000
At cost:-			
Unquoted shares	*	—	—
Share of reserves	4	—	—
	4	—	—

* Denotes RM50

7. Investment in Jointly Controlled Entities (continued)

Details of the jointly controlled entities are as follows:-

COMPANY	PRINCIPAL ACTIVITIES	COUNTRY OF INCORPORATION	EFFECTIVE OWNERSHIP INTEREST 2007 %
Best Wide MCCS Sdn. Bhd.*	Undertaking of engineering contracts and provision of related consultancy services	Malaysia	50
Red Sea Ventures Sdn. Bhd.*	Investment holding company and management services	Malaysia	50
Subsidiary of jointly controlled entity			
R.S. Engineering Services & Contracting Co Ltd*	Dormant	Sudan	35

* The share of results are based on unaudited financial statements of the jointly controlled entities for the period from 20 September 2006 to 31 July 2007.

8. Receivables, Deposits and Prepayments

	NOTE	GROUP 2007 RM'000	COMPANY 2007 RM'000	2006 RM'000
Non-current				
Non-trade				
Other receivables	a	—	—	12,999
Amount due from subsidiaries	b	—	36,930	—
		—	36,930	12,999
Current				
Trade				
Trade receivables	c	140,332	—	—
Amount due from contract customers	d	58,343	—	—
Amount due from jointly-controlled entities	e	23	—	—
Amount due from associates	e	8,743	—	—
		207,441	—	—

8. Receivables, Deposits and Prepayments (continued)

	NOTE	GROUP 2007 RM'000	COMPANY 2007 RM'000	COMPANY 2006 RM'000
Non-trade				
Other receivables		2,584	—	1,000
Deposits		782	—	—
Prepayments		893	—	—
		4,262	—	1,000
		211,703	—	1,000
		211,703	36,930	13,999

Note a
As at 31 July 2006, included in other receivables of the Company was an amount due from Kencana HL Sdn. Bhd. of RM12,999,000. The amount due from Kencana HL Sdn. Bhd. was interest free, unsecured and was not repayable within the next twelve (12) months. Kencana HL Sdn. Bhd. became a wholly-owned subsidiary of the Company with effect from 20 September 2006 (Note 5).

Note b
The amounts due from subsidiaries of the Company are interest free, unsecured and are not repayable within the next twelve (12) months.

Note c
Included in trade receivables of the Group are retention sums from contract customers of RM11,166,000. These retention sums from contract customers are unsecured, interest free and expected to be collected in accordance to the terms of the respective contract agreements.

Included in trade receivables are receivables denominated in currencies other than the functional currency as follows:-

	GROUP 2007 RM'000	COMPANY 2007 RM'000	COMPANY 2006 RM'000
US Dollars	74,084	—	—
Note d			
Aggregate costs incurred to date	1,519,414	—	—
Add:- Attributable profits less foreseeable losses	148,544	—	—
	1,667,958	—	—
Less:- Progress billings	(1,664,030)	—	—
	3,928	—	—
Amount due to contract customers (Note 15)	54,415	—	—
Amount due from contract customers	58,343	—	—

8. Receivables, Deposits and Prepayments (continued)

Additions to aggregate costs incurred during the financial year include:-

	GROUP 2007 RM'000	COMPANY 2007 RM'000	COMPANY 2006 RM'000
Rental of premises	807	—	—
Rental of staff quarters	472	—	—
Hiring of plant and equipment	13,249	—	—
Hiring of motor vehicle	575	—	—

Note e

The amounts due from associates and jointly-controlled entities of the Group are interest free, unsecured and have no fixed terms of repayment.

9. Cash and Cash Equivalents

	GROUP 2007 RM'000	COMPANY 2007 RM'000	COMPANY 2006 RM'000
Cash and bank balances	83,344	295	6,001
Deposits placed with licensed banks	80,159	25,000	—
	163,503	25,295	6,001

The deposits with licensed banks carry weighted average effective interest rate at 3.0% (2006 – 3.0%) per annum.

Included in deposits placed with licensed banks of the Group and of the Company are RM61,314,000 and RM25,000,000 (2006 – Nil) pledged to financial institutions for credit facilities granted to the Group and to the Company as disclosed in Note 13.

10. Share Capital

	AMOUNT 2007 RM'000	NUMBER OF SHARES 2007 '000	AMOUNT 2006 RM'000	NUMBER OF SHARES 2006 '000
Ordinary shares of RM0.10 each				
Authorised	100,000	1,000,000	100,000	1,000,000
Issued and fully paid:-				
At 1 August	60,000	600,000	*	**
Issued during the year	—	—	60,000	600,000
Capitalisation of amount due to Khasera Sdn. Bhd.	8,000	80,000	—	—
Public issue	20,000	200,000	—	—
Issue of shares under Employees' Share Option Scheme ("ESOS")	1,150	11,500	—	—
At 31 July	89,150	891,500	60,000	600,000

* Denotes RM2

** Denotes 20 shares

During the year, the Company undertook the following:-

(a) Capitalisation of advances from a major shareholder, Khasera Baru Sdn. Bhd. on 11 October 2006 amounting to RM20,000,000 by the issuance of 80,000,000 new ordinary shares of RM0.10 each in the Company at an issue price of RM0.25 per ordinary share.

(b) On 8 December 2006, the issued and paid-up share capital of the Company was increased by RM20,000,000 by way of allotment and issue of 200,000,000 ordinary shares of RM0.10 each arising from the public issue in conjunction with the listing of the Company on the Main Board of Bursa Malaysia Securities Berhad at an issue price of RM0.41 per ordinary share.

(c) On 24 January 2007, the issued and paid-up share capital of the Company was increased by RM1,150,000 by way of allotment and issue of 11,500,000 ordinary shares of RM0.10 each arising from the exercise of Employees' Share Option Scheme ("ESOS") at an exercise price of RM0.41 per ordinary share.

The holders of ordinary shares are entitled to receive dividends as declared from time to time and are entitled to one vote per share of meetings of the Company. All shares rank equally with regard to the Company's residual assets.

The new ordinary shares to be allotted and issued upon the exercise of the options will upon such allotment and issuance, rank pari passu in all respects with the then issued and fully-paid share except that the shares so allotted will not be entitled to any.

11. Reserves

The descriptions of reserves are as follows:-

Share premium

The share premium of the Group and of the Company represents premium arising from the issuance of ordinary shares of the Company at issue price above par value and the transfer of option reserve to share premium when the share options are exercised.

Share option reserve

The share option reserve of the Group and of the Company comprises the cumulative value of employee services received for the issue of share options. When the option is exercised, the amount from the share option reserve is transferred to share premium. When the share options expire, the amount from the share option reserve is transferred to retained earnings.

12. Employee Benefits

Share-based payments

An employees' share option scheme was established and approved by the shareholders of the Company at an Extraordinary General Meeting ("EGM") held on 11 October 2006.

The following options were granted under the ESOS scheme of the Company to the eligible employees including directors of the Company and its subsidiaries:-

DATE OF OFFER	NUMBER OF OPTIONS OVER ORDINARY SHARES OF RM0.10 EACH	EXERCISE PRICE RM	EXPIRY DATE
6.12.2006	11,500,000	0.41	14.12.2007
6.12.2006	10,500,000	0.50	14.12.2008

The number and exercise prices of share options are as follows:-

	GROUP	
	EXERCISE PRICE RM	NUMBER OF OPTIONS '000
Granted during the year	0.41	11,500
	0.50	10,500
		22,000
Exercised during the year	0.41	(11,500)
Outstanding at 31 July 2007		10,500

The options outstanding at 31 July 2007 have an exercise price of RM0.50 and a contractual life of 2 years.

During the year, 11,500,000 share options of the Company were exercised at the exercise price of RM0.41.

12. Employee Benefits (continued)

Share-based payments (continued)

The fair value of services received in return for share options granted is based on the fair value of share options granted, measured using the Black Scholes Model with the following inputs:-

Fair value of share options and assumptions

Fair value at grant date	RM0.04 – RM0.05
Exercise price	RM0.41 – RM0.50
Expected volatility (weighted average volatility)	27%
Option life	2 years
Risk-free interest rate	3.53% – 3.58%

Value of employee services received for issue of share options

The value of employee services received for issue of share options is as follows:-

	GROUP AND COMPANY 2007 RM'000
Total expense recognised as share-based payments	698

13. Loans and Borrowings

This note provides information about the contracted terms of the Group's interest bearing loans and borrowings. For more information about the Group's exposure to interest rate risk, see Note 21.

	GROUP 2007 RM'000
Non-current	
Term loan – secured	33,188
Hire purchase creditors	19,645
	52,833

13. Loans and Borrowings (continued)

	GROUP 2007 RM'000
Current	
Term loans – secured	4,710
Bank overdrafts – unsecured	303
Revolving credit – secured	7,008
– unsecured	20,000
Hire purchase creditors	8,426
	40,447
	93,280

Terms and debt repayment schedule

GROUP 2007	YEAR OF MATURITY	CARRYING AMOUNT RM'000	UNDER 1 YEAR RM'000	1 – 2 YEARS RM'000	2 – 5 YEARS RM'000	OVER 5 YEARS RM'000
Term loans						
– secured	2010 – 2014	37,898	4,710	5,103	17,683	10,402
Bank overdrafts						
– unsecured	2008	303	303	—	—	—
Revolving credit						
– secured	2008	7,008	7,008	—	—	—
– unsecured	2008	20,000	20,000	—	—	—
		65,209	32,021	5,103	17,683	10,402

Hire purchase creditors

Hire purchase creditors are payable as follows:-

GROUP	GROSS 2007 RM'000	INTEREST 2007 RM'000	PRINCIPAL 2007 RM'000
Less than one year	9,921	1,495	8,426
Between one and five years	23,359	3,714	19,645
	33,280	5,209	28,071

13. Loans and Borrowings (continued)

13.1 Term loans

The secured term loans of the subsidiaries are charged against the subsidiaries' freehold land, leasehold land and building and structures (Note 3). The term loans are also secured by charges on fixed deposits (Note 9), assignment of proceeds from certain contracts, corporate guarantee by the Company and joint and several guarantee by certain Directors of the Company in their personal capabilities. These term loans are subject to interest at rates ranging from 1.0% to 2.0% per annum above the lenders' base lending rate and are repayable in equal monthly instalments over 1 to 7 years.

13.2 Bank overdrafts

The bank overdrafts of the subsidiaries are supported by a negative pledge executed by the subsidiaries and are subject to interest at rates ranging from 1.0% to 2.0% per annum above the lenders' base lending rate.

13.3 Revolving credits

The revolving credits of a subsidiary are secured by corporate guarantee of the Company and joint and several guarantee by certain Directors of the Company in their personal capabilities.

Revolving credits are subject to interest rate of 1.0% above the bankers' cost of funds.

13.4 Hire purchase creditors

Hire purchase creditors of the subsidiaries are subject to interest at flat rates ranging from 2.60% to 4.35% per annum.

14. Deferred Tax Liabilities

Recognised deferred tax liabilities

Deferred tax liabilities are attributable to the following:-

	GROUP	COMPANY	
	2007	2007	2006
	RM'000	RM'000	RM'000
Property, plant and equipment			
– capital	5,741	—	—
– revaluations	8,866	—	—
	14,607	—	—

Unrecognised deferred tax assets

Deferred tax assets have not been recognised in respect of the following item:-

	GROUP
	2007
	RM'000
Tax loss carry-forwards	1,178

14. Deferred Tax Liabilities (continued)

The deductible temporary differences do not expire under current tax legislation. Deferred tax assets have not been recognised in respect of these items because it is not probable that future taxable profit will be available against which the Group can utilise the benefits there from. Tax loss carry-forwards of the Group amounting to approximately RM1,178,000 will not be available to the Group if there is substantial change in shareholders (more than 50%) in the subsidiaries.

The Group also has unabsorbed reinvestment allowance of RM15,783,000 available to set-off future profits.

Movement in temporary differences during the year

GROUP	AT 1.8.2006 RM'000	ACQUISITION OF SUBSIDIARIES (NOTE 25) RM'000	RECOGNISED IN INCOME STATEMENT (NOTE 18) RM'000	AT 31.7.2007 RM'000
Property, plant and equipment	—	11,494	3,113	14,607

Movement in unrecognised deferred tax assets during the year

Unrecognised deferred tax assets

GROUP	AT 1.8.2006 RM'000	ACQUISITION OF SUBSIDIARIES RM'000	RECOGNISED IN INCOME STATEMENT (NOTE 18) RM'000	AT 31.7.2007 RM'000
Tax loss carry-forwards	—	549	(243)	306

15. Payables and Accruals

	NOTE	GROUP 2007 RM'000	COMPANY 2007 RM'000	COMPANY 2006 RM'000
Non-current				
Non-trade				
Other payables	a	—	—	20,000
Current				
Trade				
Trade payables	b	167,652	—	—
Amount due to contract customers (Note 8)		54,415	—	—
Contract advances	c	3,337	—	—
Amount due to associates	d	537	—	—
Amount due to jointly controlled entities	d	9,887	—	—
		235,828	—	—
Non-trade				
Other payables		10,341	25	7
Accrued expenses		8,105	107	—
		18,446	132	7
		254,274	132	7
		254,274	132	20,007

Note a

As at 31 July 2006, the non-current other payables of the Company was an amount due to the former holding company, Khasera Baru Sdn. Bhd..

The amount due to Khasera Baru Sdn. Bhd. was interest free, unsecured and was not repayable within the next twelve months.

Note b

Included in trade payables are major payables denominated in currencies other than the functional currency, as follows:-

	GROUP 2007 RM'000	COMPANY 2007 RM'000	COMPANY 2006 RM'000
US Dollars	59,726	—	—
Singapore Dollars	548	—	—
Euro	15,332	—	—
Pounds Sterling (GBP)	110	—	—

15. Payables and Accruals (continued)

Note c

The contract advances received from contract customers of the Group are unsecured, interest free and expected to be set off against the progress billings issued in accordance to the terms of the respective contract agreements.

Note d

The amounts due to associates and jointly controlled entities of the Group are interest free, unsecured and have no fixed terms of repayment.

16. Operating Profit/(Loss)

	GROUP	COMPANY	
	2007	2007	2006
	RM'000	RM'000	RM'000
Operating profit/(loss) is arrived at after charging:-			
Allowance for doubtful debts	487	—	—
Auditors' remuneration	150	10	1
Depreciation of property, plant and equipment	5,839	—	—
Loss on disposal of property, plant and equipment	585	—	—
Personnel expenses			
– Contributions to Employees Provident Fund	3,416	87	—
– Wages, salaries and others	32,151	485	—
Realised loss on foreign exchange	10	—	—
Rental of premises	148	—	—
Rental of equipment	229	—	—
Share based payments	698	—	—
and after crediting:-			
Excess of fair value of net assets over acquisition costs	7,886	—	—
Gain on disposal of other investment	632	—	—
Rental income	195	—	—

17. Directors' Remuneration

	GROUP	COMPANY	
	2007	2007	2006
	RM'000	RM'000	RM'000
Directors:-			
– Fees	62	62	—
– Remuneration	2,469	510	—
	2,531	572	—

18. Tax Expense

	GROUP	COMPANY	
	2007	2007	2006
	RM'000	RM'000	RM'000
Income tax expense			
Malaysia			
– current year	4,726	10	—
Foreign/withholding tax			
– current year	12,919	—	—
Deferred tax expense			
Origination of temporary differences	3,113	—	—
Total tax expense	20,758	10	—
Reconciliation of tax expense			
Profit/(Loss) before tax	77,918	(677)	(3)
Income tax using Malaysian tax rate at 27% (2006 – 28%)	21,038	(183)	(1)
Non-deductible expenses	6,289	193	1
Tax incentives**	(4,531)	—	—
Non taxable income	(2,129)	—	—
Utilisation of previously unrecognised deferred tax benefits	(243)	—	—
Others	334	—	—
Tax expense	20,758	10	—

** Certain subsidiaries of the Group have been granted a 50% tax reduction on income derived from Exploration and Exploitation of Petroleum in the Malaysia – Thailand Joint Development Area (MTJDA).

19. Earnings Per Ordinary Share

Basic earnings per ordinary share

The calculation of basic earnings per ordinary share was based on the profit attributable to ordinary shareholders and a weighted average number of ordinary shares outstanding calculated as follows:-

	GROUP 2007 RM'000
Profit for the year attributable to ordinary shareholders	57,160
Weighted average number of ordinary shares	
Issued ordinary shares at 1 August	600,000
Effect of capitalisation of amount due to shareholders in October 2006	74,667
Effect of ordinary shares issued in December 2006	149,841
Effect of ordinary shares issued under ESOS in January 2007	6,900
	831,408
Basic earnings per ordinary share (in sen)	6.88

Diluted earnings per share

The calculation of diluted earnings per ordinary share was based on profit attributable to ordinary shareholders and a weighted average number of ordinary shares outstanding after adjustment for the effects of all dilutive potential ordinary shares, calculated as follows:-

	GROUP 2007 RM'000
Profit for the year attributable to ordinary shareholders	57,160
Weighted average number of ordinary shares (diluted)	
Weighted average number of ordinary shares at 31 July	831,408
Effect of share option on issue	7,737
	839,145

The average market value of the Company's shares for the purpose of calculating the dilutive effect of share options was based on quoted market prices for the period that the share options were outstanding.

	GROUP 2007
Diluted earnings per ordinary share (in sen)	6.81

20. Segmental Reporting

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.

21. Financial Instruments

Financial risk management objectives and policies

Exposure to credit, liquidity, interest rate, foreign currency risks arises in the normal course of the Group and the Company's business. The Board reviews and agrees policies for managing each of these risks and they are summarised below:-

Credit risk

The exposure to credit risk is monitored by the management on an ongoing basis.

At balance sheet date, there were no significant concentrations of credit risk. The maximum exposure to credit risk is represented by the carrying amount of each financial asset.

Liquidity risk

The Group and the Company actively manage their debt maturity profile, operating cash flows and availability of funding so as to ensure that all financing, repayment and funding needs are met. As part of their overall liquidity management, the Group and the Company maintain sufficient levels of cash or cash convertible investments to meet their working capital requirements.

Interest rate risk

The Group and the Company borrow for construction projects and for working capital purposes from banks and financial institutions, and have fixed deposits placed with licensed banks. Interest rate exposure is managed through the use of fixed and floating rate debts.

Effective interest rates and repricing analysis

In respect of interest-earning financial assets and interest-bearing financial liabilities, the following table indicates their average effective interest rates at the balance sheet date and the periods in which they mature, or if earlier, reprice.

GROUP 2007	AVERAGE EFFECTIVE INTEREST RATE PER ANNUM %	TOTAL RM'000	LESS THAN 1 YEAR RM'000	1 – 2 YEARS RM'000	2 – 3 YEARS RM'000	3 – 4 YEARS RM'000	4 – 5 YEARS RM'000	MORE THAN 5 YEARS RM'000
Financial assets								
Deposits placed with licensed banks	3.00	80,159	80,159	—	—	—	—	—
Financial liabilities								
Secured term loans	7.25-8.25	37,898	37,283	160	172	75	60	148
Unsecured overdrafts	7.75	303	303	—	—	—	—	—
Secured revolving credits	7.00	7,008	7,008	—	—	—	—	—
Unsecured revolving credits	6.25	20,000	20,000	—	—	—	—	—
		65,209	64,594	160	172	75	60	148

21. Financial Instruments (continued)

Foreign currency risk

The Group and the Company incur foreign currency risk on revenue and purchases that are denominated in a currency other than Ringgit Malaysia.

The currencies giving rise to this risk are primarily US dollars, AUD dollars, SGD dollars and EURO and Pounds Sterling (GBP).

The Group and the Company do not have a fixed policy to hedge their revenue and purchases in forward contracts. However, the exposure to foreign currency risk is monitored from time to time by management.

Fair values

Recognised financial instruments

The aggregate fair values of long term financial liabilities carried on the balance sheet as at 31 July are represented in the following table:-

GROUP	2007 CARRYING AMOUNT RM'000	2007 FAIR VALUE RM'000
Financial liabilities		
Secured term loans:-		
RM fixed rate loans	772	772
RM floating rate loans	37,126	37,126

The carrying amount in respect of cash and cash equivalents, receivables, deposits and prepayments, other payables and accruals and short-term borrowings, approximate fair value due to the relatively short-term nature of these financial instruments.

It is not possible to establish the fair value of the amount due from subsidiaries, associates and jointly controlled entities as the amounts are interest free, unsecured and have no fixed terms of repayment.

In respect of the long-term borrowings with variable interest rates, the carrying amounts approximate fair values as they are floating rates and reprice to market interest rates for liabilities with similar risk profiles. As for other long term borrowings with fixed interest rates, the Directors are of the opinion that the fair values approximate the carrying amounts as the Group's creditworthiness has remained intact.

22. Capital Commitments

	GROUP 2007 RM'000
Property, plant and equipment	
Contracted but not provided for in the financial statements	860

23. Contingent Liabilities

	GROUP 2007 RM'000
Guarantees issued by financial institutions in favour of third parties	24,496

(a) Kencana HL Sdn. Bhd., a wholly-owned subsidiary of the Company, granted an unsecured corporate guarantee amounting to USD6,665,530 to a financial institution for credit facilities granted to Cendor Mopu Producer Ltd ("CMPL"), previously an investment of Kencana HL Sdn. Bhd.. Kencana HL Sdn. Bhd. has disposed of its entire equity interest in CMPL during the financial year ended 31 July 2006. Under the agreement to dispose the shares in CMPL, the remaining shareholders of CMPL shall procure the financial institution to release the corporate guarantee extended to the financial institution and pending such release, the remaining shareholders will collectively assume Kencana HL Sdn. Bhd.'s responsibility under the said corporate guarantee. The financial institution had conditionally approved the cancellation of the corporate guarantee pending finalisation of documentation by CMPL.

(b) Kencana Bestwide Sdn. Bhd., a wholly-owned subsidiary of the Company, granted an 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 Sdn. Bhd..

In the ordinary course of business, the Group and the Company also issue bank and performance guarantees to customers who awarded contracts to the Group and the Company.

Litigation

On 15 March 2006, a third party served Kencana HL Sdn. Bhd., a wholly-owned subsidiary of the Company, with a notice pursuant to Section 218 of the Companies Act, 1965 stating that a sum of RM599,753 is due and owing by Kencana HL Sdn. Bhd.. Kencana HL Sdn. Bhd. disputed the amount claimed on the basis that it is not substantiated. Kencana HL Sdn. Bhd. has been granted a Quia Timet injunction by the Court to prevent the filing of a winding-up petition as there were issues concerning the alleged outstanding sum. As the claimant is restrained from commencing winding-up proceedings against Kencana HL Sdn. Bhd., it is seeking to recover the outstanding sum by way of a conventional writ action.

On 14 December 2006, the claimant filed an action against Kencana HL Sdn. Bhd. for, amongst others, a sum of RM1,731,389 together with a surcharge of RM43,285, being the alleged outstanding amount. To-date, the sealed copy of the writ of summons has not been served on Kencana HL Sdn. Bhd.. Kencana HL Sdn. Bhd.'s solicitor has not been made aware of any renewal of the writ summon or any fresh summon has been filed whatsoever by the claimant. No provision has been made for the amount claimed as the Directors of the Company are of the opinion that the likelihood of crystalisation of the claim is remote.

24. Related Parties

Identity of related parties

For the purposes of these financial statements, parties are considered to be related to the Group if the Group has the ability, directly or indirectly, to control the party or exercise significant influence over the party in making financial and operating decisions, or vice versa, or where the Group and the party are subject to common control or common significant influence. Related parties may be individuals or other entities.

The Group has a related party relationship with its subsidiaries (Note 5), associates (Note 6), jointly controlled-entities (Note 7) and the Company's Directors.

Significant transactions with related parties

	GROUP 2007 RM'000
Transaction value for the year ended 31 July	
Associates	
Matrix Maintenance Sdn. Bhd.	(473)
Sub contract costs payable	
Best Wide Engineering (M) Sdn. Bhd.	
Sub contract costs payable	(5,353)
Progress billings receivable	23,564
Jointly controlled-entities	
Best Wide MCCS Sdn. Bhd.	
Sub contract costs payable	(80,525)
Progress billings receivable	47
Company in which Dato' Mokhzani bin Mahathir and Yeow Kheng Chew have interest:-	
Stamsteel Sdn. Bhd.	
– Sub contract costs payable	(3,033)

These transactions have been entered into in the normal course of business and have been established under negotiated terms.

25. Acquisition of Subsidiaries

Business combination

On 1 August 2006, the Company acquired the entire equity interest in Kencana HL Sdn. Bhd. for a total purchase consideration of RM48,569,998 satisfied by the issuance of 485,699,980 new ordinary shares of RM0.10 each in the Company.

The Company also acquired the entire equity interest in Kencana Bestwide Sdn. Bhd. for a total purchase consideration of RM11,430,000 satisfied by the issuance of 114,300,000 new ordinary shares of RM0.10 each in the Company. The acquisition was accounted for using the acquisition method of accounting.

Kencana HL Sdn. Bhd. and Kencana Bestwide Sdn. Bhd. became subsidiaries of Kencana Petroleum Berhad with effect from 20 September 2006, upon the Company obtaining control over the financial and operating policies of Kencana HL Sdn. Bhd. and Kencana Bestwide Sdn. Bhd. as all the conditions precedent as set out in the Sale of Shares Agreement and the Supplementary Agreement respectively were met.

Kencana HL Sdn. Bhd. is principally engaged in integrated engineering and the fabrication of production facilities for oil and gas industry. Kencana Bestwide Sdn. Bhd. is engaged in Engineering, Procurement, Construction (fabrication) and Commissioning ("EPCC"), design and engineering and project management.

During the period from 20 September 2006 to 31 July 2007, Kencana HL Sdn. Bhd. and Kencana Bestwide Sdn. Bhd. contributed profit of RM26,800,000 and RM23,161,000 respectively to the Group.

The acquisition had the following effect on the Group's assets and liabilities on acquisition date:-

	NOTE	RECOGNISED FAIR VALUES ON ACQUISITION RM'000
Property, plant and equipment	3	141,858
Intangible assets	4	770
Investment in associates		941
Investments in jointly controlled entities		(12)
Other investment		55
Receivables, deposits and prepayments		67,834
Current tax assets		303
Cash and cash equivalents		34,538
Payables and accruals		(93,129)
Loans and borrowings		(97,247)
Deferred tax liabilities	14	(11,494)
Net identifiable assets and liabilities		44,417
Goodwill on acquisition		23,469
Excess of fair value of net assets over acquisition costs		(7,886)
Consideration paid satisfied in shares		60,000
Cash and cash equivalents acquired		(34,538)
		25,462

25. Acquisition of Subsidiaries (continued)

Pre-acquisition carrying amounts were determined based on applicable FRSs immediately before the acquisition. The values of assets and liabilities, recognised on acquisition are their estimated fair values.

The goodwill recognised on the acquisition is attributable mainly to the skills and technical talent of the acquired subsidiary's work force and the synergies expected to be achieved from integrating the company into the Group's business.

Effect of acquisition

The acquisition of subsidiaries had the following effect on the Group's operating results, assets and liabilities:-

	2007 RM'000
Income statement	
Revenue	824,283
Contract cost	(728,202)
Gross profit	96,081
Other income	2,055
Administrative expenses	(29,218)
Results from operating activities	68,918
Interest income	925
Finance costs	(5,157)
Operating profit	64,686
Share of profit of associates	290
Share of profit of jointly controlled entities	16
Profit before tax	64,992
Tax expense	(15,031)
Increase in the Group's profit for the financial year	49,961
Balance sheet	
Non-current assets	183,396
Current assets	350,663
Non-current liabilities	(104,370)
Current liabilities	(295,090)
Net assets acquired	134,599
Goodwill on acquisition	23,469
Excess of fair value of net assets over acquisitions costs	(7,886)
Increase in Group's net assets at the end of financial year	150,182

26. Significant Event

The Company was officially listed on the Main Board of Bursa Malaysia Securities Berhad on 15 December 2006.

27. Subsequent Events

(i) On 21 August 2007, Kencana HL Sdn. Bhd., a wholly-owned subsidiary of the Company entered into a Share Sale Agreement to acquire 10,000,000 ordinary shares of RM1.00 each in Torsco Sdn. Bhd. ("Torsco"), representing 100% of the issued and paid-up share capital of Torsco from IJM Corporation Berhad, for a purchase consideration of RM74,624,582, payable in cash. The proposed acquisition is conditional upon approvals being obtained from the relevant authorities and the Company's shareholders in an extraordinary general meeting.

(ii) The Company incorporated a wholly-owned subsidiary, Kencana Petroleum Ventures Sdn. Bhd. on 5 September 2007. The intended principal activity of Kencana Petroleum Ventures Sdn. Bhd. is investment holding, management and related services of oil and gas industry.

(iii) On 13 September 2007, the Company announced the following proposed corporate exercise:-

   (i) private placement of up to 10% of the issued and paid-up share capital of the Company;

   (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; and

   (iii) amendments to the Memorandum and Articles of Association of the Company.

   The proposals are conditional upon approvals being obtained from the relevant authorities and the Company's shareholders in an extraordinary general meeting.

(iv) Kencana Petroleum Ventures Sdn. Bhd., a wholly-owned subsidiary of the Company which was incorporated on 5 September 2007 had on 19 September 2007 entered into the Shareholders' Agreement with Mermaid Drilling (Singapore) Pte. Ltd. in relation to the proposed formation of a company to be known as Kencana Mermaid Drilling Sdn. Bhd. to carry on the business of offshore drilling and drilling related services in the oil and gas industry in Malaysia. Kencana Mermaid Drilling Sdn. Bhd. would be incorporated in Malaysia as a private company limited by shares under the Companies Act, 1965 with an authorised and initial paid up share capital of RM100,000 comprising of 100,000 ordinary shares of RM1.00 each. Kencana Petroleum Ventures Sdn. Bhd. and Mermaid Drilling (Singapore) Pte. Ltd. would subscribe 60% and 40% of the shareholding of Kencana Mermaid Drilling Sdn. Bhd. respectively.

ANALYSIS OF Shareholdings AS AT 16 OCTOBER 2007

Authorised Share Capital	:	RM100,000,000.00
Issued and fully paid-up	:	RM89,150,000.00
Class of Shares	:	Ordinary Shares of RM0.10 each
No. of Shareholders	:	7,985
Voting Rights	:	One vote per Ordinary Share held

Distribution Schedule of Shares

SIZE OF HOLDINGS	NO. OF HOLDERS	TOTAL HOLDINGS	% OF HOLDINGS
1 – 99	12	717	0.00
100 – 1,000	2,019	1,924,398	0.22
1,001 – 10,000	4,730	21,374,925	2.40
10,001 – 100,000	993	29,891,090	3.35
100,001 to less than 5% of issued shares	227	288,025,247	32.31
More than 5% of issued shares	4	550,283,623	61.72
Total	7,985	891,500,000	100.00

Thirty Largest Shareholders

	NAME OF SHAREHOLDERS	NO. OF SHARES	% OF SHARES
1.	Khasera Baru Sdn. Bhd.	200,000,000	22.43
2.	Khasera Baru Sdn. Bhd.	195,203,623	21.90
3.	HSBC Nominees (Asing) Sdn. Bhd. *ABN AMRO Bank N.V. (London Branch)*	82,080,000	9.21
4.	Chong Hin Loon	73,000,000	8.19
5.	Quek Leng Chan	43,120,000	4.84
6.	HSBC Nominees (Asing) Sdn. Bhd. *Exempt an for Credit Suisse (SG BR-TST-Asing)*	31,779,800	3.56
7.	Best Wide Holdings Sdn. Bhd.	18,288,000	2.05
8.	Affendi bin Zahari *(Shares held in Trust for the Benefit of Khasera Baru Sdn. Bhd. pursuant to Trust Deed 1 September 2005)*	17,321,272	1.94
9.	RHB Capital Nominees (Tempatan) Sdn. Bhd. *Pledged Securities Account for Poh Soon Sim (CEB)*	14,500,700	1.63
10.	Citigroup Nominees (Asing) Sdn. Bhd. *UBS AG Singapore for Asia Premium Corp*	13,463,000	1.51

Thirty Largest Shareholders (continued)

	NAME OF SHAREHOLDERS	NO. OF SHARES	% OF SHARES
11.	Best Wide Holdings Sdn. Bhd.	10,801,600	1.21
12.	Cartaban Nominees (Asing) Sdn. Bhd. *Exempt an for Caceis Bank Luxembourg (CLT ACCT-LUX)*	9,379,300	1.05
13.	HSBC Nominees (Asing) Sdn. Bhd. *HSBC-FS for LEGG Mason Southeast Asia Special Situations Trust (201061)*	7,512,800	0.84
14.	HSBC Nominees (Asing) Sdn. Bhd. *Exempt an for the Hongkong and Shanghai Banking Corporation Limited (HBFS-I CLT ACCT)*	5,621,800	0.63
15.	AMMB Nominees (Tempatan) Sdn. Bhd. *Amtrustee Berhad for SBB Dana Al-Ihsan (5-2-7)*	4,721,800	0.53
16.	UOBM Nominees (Tempatan) Sdn. Bhd. *Exempt an for Areca Capital Sdn. Bhd. (Client a/c 1)*	4,020,000	0.45
17.	Wee Yeow Tin	4,000,000	0.45
18.	Amanah Raya Nominees (Tempatan) Sdn. Bhd. *Public Islamic Balanced Fund*	3,413,000	0.38
19.	Yeow Kheng Chew	3,375,000	0.38
20.	Richard Mah Foo Kheong	2,975,000	0.33
21.	Universal Trustee (Malaysia) Berhad *SBB High Growth Fund*	2,910,000	0.33
22.	HLG Nominee (Tempatan) Sdn. Bhd. *PB Trustee Services Berhad for HLG Growth Fund*	2,757,000	0.31
23.	Kasinathan A/L Tulasi *(Shares held in Trust for the Benefit of Khasera Baru Sdn. Bhd. pursuant to Trust Deed 1 September 2005)*	2,307,484	0.26
24.	Tan Siew Lee	2,299,300	0.26
25.	Citigroup Nominees (Tempatan) Sdn. Bhd. *Exempt an for Prudential Assurance Malaysia Berhad*	2,076,800	0.23
26.	Mokhzani bin Mahathir	2,075,000	0.23
27.	New Cheng Swee	2,002,300	0.22
28.	Citigroup Nominees (Asing) Sdn. Bhd. *Citibank Singapore Global Window for Savers Malaysia Fund*	2,000,000	0.22
29.	Universal Trustee (Malaysia) Berhad *SBB Premium Capital Fund*	1,863,600	0.21
30.	Amanah Raya Nominees (Tempatan) Sdn. Bhd. *Public Islamic Dividend Fund*	1,725,000	0.19

Substantial Shareholders (AS PER REGISTER OF SUBSTANTIAL SHAREHOLDERS)

	DIRECT INTEREST		DEEMED INTEREST	
NAME OF SHAREHOLDERS	NO. OF SHARES	%	NO. OF SHARES	%
Khasera Baru Sdn. Bhd.	414,832,379 [a]	46.53	0	0
Dato' Mokhzani bin Mahathir	2,075,000	0.23	414,832,379 [b]	46.53
ABN AMRO Bank N.V.	82,080,000	9.21	0	0
Chong Hin Loon	73,800,000	8.28	0	0

NOTES:-

a 17,321,272 shares are held by Affendi bin Zahari and 2,307,484 shares are held by Kasinathan A/L Tulasi @ Sunther in trust for the benefit of Khasera Baru Sdn. Bhd. ("Khasera Baru") pursuant to the respective trust deeds dated 1 September 2005 upon terms and condition therein. The shares are pending allocation to key management of the Kencana Petroleum Group.

b Deemed interest by virtue of his shareholding in Khasera Baru Sdn. Bhd. pursuant to Section 6A of the Companies Act, 1965 ("the Act").

Directors' Shareholdings (AS PER REGISTER OF DIRECTORS' INTERESTS)

	DIRECT INTEREST		DEEMED INTEREST	
NAME OF DIRECTORS	NO. OF SHARES	%	NO. OF SHARES	%
Dato' Mokhzani bin Mahathir	2,075,000	0.23	414,832,379 *	46.53
Chong Hin Loon	73,800,000	8.28	0	0
Zainal Rashid bin Mokhtar	1,220,722	0.14	0	0
Yeow Kheng Chew	3,375,000	0.38	0	0
Ir. Cher Lee Kiat	1,500,000	0.17	33,089,600 ^	3.71
Azmi bin Ismail	300,000	0.03	0	0
Mohd Adzahar bin Abdul Wahid	0	0	0	0

NOTES:-

* Deem interest by virtue of his shareholding in Khasera Baru Sdn. Bhd. pursuant to Section 6A of the Act.

^ Deemed interest by virtue of his shareholding in Best Wide Holdings Sdn. Bhd. and shares held by his spouse pursuant to Section 6A of the Act.

Share options granted under the Employees' Share Option Scheme ("ESOS") of the Company

NAME OF DIRECTORS	NUMBER OF OPTION OVER ORDINARY SHARES OF RM0.10 EACH	OPTION PRICE RM
Dato' Mokhzani bin Mahathir	2,075,000	0.50
Chong Hin Loon	3,300,000	0.50
Yeow Kheng Chew	3,375,000	0.50
Ir. Cher Lee Kiat	1,750,000	0.50

LIST OF

Properties

LOCATION	TENURE/ EXPIRY DATE	AREA (SQ FT)	DESCRIPTION/ EXISTING USE	NET BOOK VALUE (RM'000)	AGE OF BUILDING (YEARS)	YEAR OF ACQUISITION
Plot D-1, Lumut Port Industrial Park, Kampung Acheh, Mukim of Lumut, Daerah Manjung, 32000 Sitiawan, Perak Darul Ridzuan Malaysia	Leasehold/ 21 December 2094	470,884	Fabrication Yard	3,526	7	1999
Plot D-8, Lumut Port Industrial Park, Kampung Acheh, Mukim of Lumut, Daerah Manjung, 32000 Sitiawan, Perak Darul Rizduan Malaysia	Leasehold/ 21 December 2094	394,654	Fabrication Yard/ Office Building/ Paint Shop	4,691	Not Applicable	2002
Plot D-11, Lumut Port Industrial Park, Kampung Acheh, Mukim of Lumut, Daerah Manjung, 32000 Sitiawan, Perak Darul Rizduan Malaysia	Leasehold/ 18 December 2093	398,574	Fabrication Yard/ Workshop	39,104	Not Applicable	2004
Plot D-9, Lumut Port Industrial Park, Kampung Acheh, Mukim of Lumut, Daerah Manjung, 32000 Sitiawan, Perak Darul Rizduan Malaysia	Leasehold/ 21 December 2094	490,050	Fabrication Yard/ 3 storey office	5,427	Not Applicable	2004
Plot D-7, Lumut Port Industrial Park, Kampung Acheh, Mukim of Lumut, Daerah Manjung, 32000 Sitiawan, Perak Darul Rizduan Malaysia	Leasehold/ 21 December 2094	237,123	Fabrication Yard/ Road Reserve Land/Canteen & HSE office	3,527	Not Applicable	2005
Plot D-12, Lumut Port Industrial Park, Kampung Acheh, Mukim of Lumut, Daerah Manjung, 32000 Sitiawan, Perak Darul Rizduan Malaysia	Leasehold/ 21 December 2094	336,299	Fabrication Yard/ Road Reserve Land	2,245	Not Applicable	2005
Lot 50, Jalan BRP 8/2, Persiaran Bukit Rahman 3, Perusahaan Bukit Rahman Putra, 47000 Sungai Buloh, Selangor Darul Ehsan Malaysia	Freehold	26,572	Industrial Building	2,389	9	2005

LOCATION	TENURE/ EXPIRY DATE	AREA (SQ FT)	DESCRIPTION/ EXISTING USE	NET BOOK VALUE (RM'000)	AGE OF BUILDING (YEARS)	YEAR OF ACQUISITION
Unit B-11-8, Megan Avenue II, No. 12 Jalan Yap Kwan Seng, 50450 Kuala Lumpur Malaysia	Freehold	2,771	Office lot/ Administrative Office	682,330	8	2001
Unit B-11-10, Megan Avenue II, No. 12 Jalan Yap Kwan Seng, 50450 Kuala Lumpur Malaysia	Freehold	2,682	Office lot/ Administrative Office	660,414	8	2001
Unit B-11-11, Megan Avenue II, No. 12 Jalan Yap Kwan Seng, 50450 Kuala Lumpur Malaysia	Freehold	4,629	Office lot/ Administrative Office	1,139,842	8	2001
K 9595 Taman Chukai Utama, Jalan Kubang Kurus, 24000 Kemaman, Terengganu Darul Iman Malaysia	Leasehold / 18 April 2087	2,664	2-storey corner shop/office	283,461	19	2002
Unit B-10-9, Megan Avenue II, No. 12 Jalan Yap Kwan Seng, 50450 Kuala Lumpur Malaysia	Freehold	2,530	Office lot/ Administrative Office	785,133	8	2001

CORPORATE
Directory

Corporate Office

Kencana Petroleum Berhad
Lot 50, Jalan BRP 8/2,
Persiaran Bukit Rahman Putra 3,
Perusahaan Bukit Rahman Putra,
47000 Sungai Buloh,
Selangor Darul Ehsan
Malaysia
Tel No. : (6) 03 6140 5801
Fax No. : (6) 03 6140 5810

Corporate Office (Branch)

Kencana Petroleum Berhad
Unit B-10-9, Megan Avenue II,
No. 12, Jalan Yap Kwan Seng,
50450 Kuala Lumpur
Malaysia
Tel No. : (6) 03 2713 2280
Fax No. : (6) 03 2713 2289

Operations Office

FABRICATION

Kencana HL Sdn. Bhd.
(Lumut Fabrication Yard)
Plot D1, Lumut Port Industrial Park,
Kampung Acheh, Mukim of Lumut,
Daerah Manjung,
32000 Sitiawan,
Perak Darul Ridzuan
Malaysia
Tel No. : (6) 05 692 3071
Fax No. : (6) 05 692 2609

Kencana HL Sdn. Bhd. *(Operations)*
Kencana Marine Sdn. Bhd.
Kencana Metering Sdn. Bhd.
Kencana Infrastructure Sdn. Bhd.
Kencana Steelworks Sdn. Bhd.

Lot 50, Jalan BRP 8/2,
Persiaran Bukit Rahman Putra 3,
Perusahaan Bukit Rahman Putra,
47000 Sungai Buloh,
Selangor Darul Ehsan
Malaysia
Tel No. : (6) 03 6140 5801
Fax No. : (6) 03 6140 5810

ENGINEERING / SERVICES

Kencana Bestwide Sdn. Bhd.
Best Wide Engineering (M) Sdn. Bhd.

Unit B-11-11, Megan Avenue II,
No. 12, Jalan Yap Kwan Seng,
50450 Kuala Lumpur
Malaysia
Tel No. : (6) 03 2713 2218
Fax No. : (6) 03 2713 2558

Kencana Pinewell Sdn. Bhd.
K 9595, Taman Chukai Utama,
Jalan Kubang Kurus,
24000 Kemaman,
Terengganu Darul Iman
Malaysia
Tel No. : (6) 09 859 2955
Fax No. : (6) 09 859 1603

Matrix Maintenance Sdn. Bhd.
PT 12317, Lot 3979,
Jalan Feri Lama,
24000 Kemaman,
Terengganu Darul Iman
Malaysia
Tel No. : (6) 09 858 6493
Fax No. : (6) 09 858 6378

Website : www.knpe.com.my

APPENDIX I

This is the Appendix I referred to in the Special Resolution of the Notice of the Third Annual General Meeting of Kencana Petroleum Berhad.

Proposed Amendments to the Company's Articles of Association

The Company's Articles of Association are proposed to be amended in the following manner:-

(1) The existing Article 2 be amended by deleting the definition of "Approved Market Place":-

Words	Meanings
Approved Market Place	A stock exchange, which is specified to be an approved market place in the Securities Industry (Central Depositories) (Exemption) (No. 2) Order, 1998.

(2) The existing Article 3(2)(b) be deleted in its entirety:-

Existing Article 3(2)(b)

"No issue of preference shares shall be made which would result in the total nominal value of issued preference shares exceeding the total nominal value of the issued ordinary shares at any time;"

(3) The existing Articles 3(2)(c) and 3(2)(d) be re-numbered as Articles 3(2)(b) and 3(2)(c) respectively.

(4) The existing Article 4(1) be deleted in its entirety and replaced with the following new Article 4(1):-

Existing Article 4(1)

"Subject to Article 3(2)(b), the Company shall have power with the sanction of an ordinary resolution to issue preference shares carrying a right to redemption out of profits or liable to be redeemed at the option of the Company or to issue preference shares ranking equally with or in priority to preference shares already issued and the Directors may, subject to the provisions of the Act, redeem such shares on such terms and in such manner and either at par or at a premium as they may think fit."

New Article 4(1)

"The Company shall have power with the sanction of an ordinary resolution to issue preference shares carrying a right to redemption out of profits or liable to be redeemed at the option of the Company or to issue preference shares ranking equally with or in priority to preference shares already issued and the Directors may, subject to the provisions of the Act, redeem such shares on such terms and in such manner and either at par or at a premium as they may think fit."

(5) The existing Article 4(2) be amended by inserting a new sentence which reads as follows:-

"On a resolution to be decided on a show of hands, a holder of preference shares who is personally present and entitled to vote shall be entitled to one (1) vote", and the new Article 4(2) shall read as follows:-

New Article 4(2)

"Preference shareholders shall have the same rights as ordinary shareholders as regards the receiving of notices, reports and financial statements and the attending of general meetings of the Company. Preference shareholders shall also have the right to vote at any meeting convened for the purpose of reducing the capital or winding up or sanctioning a sale of the whole of the Company's property, business or undertaking or where the proposition to be submitted to the meeting directly affects their rights and privileges or when the dividend on the preference shares is in arrears for more than six (6) months or during the winding up of the Company. On a resolution to be decided on a show of hands, a holder of preference shares who is personally present and entitled to vote shall be entitled to one (1) vote."

(6) The existing Article 4(3) be deleted in its entirety:-

Existing Article 4(3)

"Preference shareholders must be entitled to a return of capital in preference to holders of ordinary shares when the Company is wound up."

(7) The existing Article 35 be deleted in its entirety and replace with the following new Article 35:-

Existing Article 35

The registration of transfers may be suspended at such times and for such period as the Directors may from time to time determine not exceeding in the whole thirty (30) days in any year. Subject always to the Listing Requirements of the Stock Exchange, at least twelve (12) market days' notice of intention to close the said register shall be given to the Stock Exchange. The said notice shall state the purpose or purposes for which the register is being closed. At least three (3) market days prior notice shall be given to the Depository to prepare the appropriate Record of Depositors provided that where the Record of Depositors is required in respect of corporate actions, prior notice shall be given to the Depository.

New Article 35

The registration of transfers may be suspended at such times and for such period as the Directors may from time to time determine not exceeding in the whole thirty (30) days in any year. Subject always to the Listing Requirements of the Stock Exchange, at least ten (10) market days' notice of intention to close the said register shall be given to the Stock Exchange. The said notice shall state the purpose or purposes for which the register is being closed. At least three (3) market days prior notice shall be given to the Depository to prepare the appropriate Record of Depositors provided that where the Record of Depositors is required in respect of corporate actions, prior notice shall be given to the Depository.

(8) The existing Article 42 be deleted in its entirety and replaced with the following new Article 42:-

Existing Article 42 – Transmission of securities from Foreign Register

(1) "Where:-

(a) the securities of the Company are listed on the Approved Market Place; and
(b) such company is exempted from compliance with Section 14 of the Central Depositories Act or Section 29 of the Securities Industry (Central Depositories)(Amendment)(No. 2) Act 1998, as the case may be, under the Rules in respect of such securities,

such company shall, upon request of a securities holder, permit a transmission of securities held by such securities holder from the register of holders maintained by the registrar of the Company in the jurisdiction of the Approved Market Place (hereinafter referred to as "the Foreign Register") to the register of holders maintained by the registrar of the Company in Malaysia (hereinafter referred to as "the Malaysian Register") provided that there shall be no change in the ownership of such securities.

(2) For the avoidance of doubt, no company which fulfils the requirements of subparagraphs 1(a) and (b) above shall allow any transmission of securities from the Malaysian Register into the Foreign Register."

New Article 42 – Transmission of securities

"Where:-

(a) the securities of the Company are listed on another stock exchange; and
(b) such company is exempted from compliance with Section 14 of the Central Depositories Act or Section 29 of the Securities Industry (Central Depositories)(Amendment)(No. 2) Act 1998, as the case may be, under the Rules in respect of such securities,

such company shall, upon request of a securities holder, permit a transmission of securities held by such securities holder from the register of holders maintained by the registrar of the Company in the jurisdiction of the other stock exchange to the register of holders maintained by the registrar of the Company in Malaysia and vice-versa provided that there shall be no change in the ownership of such securities."

(9) The existing Article 59(2) be deleted in its entirety and replaced with the following new Article 59(2):-

Existing Article 59(2)

"The Company shall inform the Depository of the dates of general meetings and shall by written request, request the Depository in accordance with the Rules, to issue a Record of Depositors, as at a date not less than three (3) market days before the date of the general meeting (hereinafter referred to as "the General Meeting Record of Depositors"). Subject to the Securities Industry (Central Depositories) (Foreign Ownership) Regulations 1996 (where applicable), a depositor shall not be regarded as a member entitled to attend any general meeting and to speak and vote thereat unless his name appears in the General Meeting Record of Depositors."

New Article 59(2)

"The Company shall inform the Depository of the dates of general meetings and shall by written request, request the Depository in accordance with the Rules, to issue a Record of Depositors, as at the latest date which is reasonably practicable which shall in any event be a date not less than three (3) market days before the date of the general meeting (hereinafter referred to as "the General Meeting Record of Depositors"). Subject to the Securities Industry (Central Depositories) (Foreign Ownership) Regulations 1996 (where applicable), a depositor shall not be regarded as a member entitled to attend any general meeting and to speak and vote thereat unless his name appears in the General Meeting Record of Depositors."

(11) The existing first paragraph of the Article 85 be deleted in its entirety and replaced with the following new paragraph:-

Existing first paragraph of Article 85

"All the Directors of the Company shall be natural persons of full age and the number of Directors shall not be less than two (2). In the event of any casual vacancy occurring and reducing the number of Directors below the aforesaid minimum, the continuing Director or Directors may, except in an emergency, act only for the purpose of increasing the number of Directors to such minimum number or to summon a general meeting of the Company but not for any other purpose."

New paragraph

"All the Directors of the Company shall be of full age and the number of Directors shall not be less than two (2). In the event of any casual vacancy occurring and reducing the number of Directors below the aforesaid minimum, the continuing Director or Directors may, except in an emergency, act only for the purpose of increasing the number of Directors to such minimum number or to summon a general meeting of the Company but not for any other purpose."

(12) The existing Article 89 be deleted in its entirety and replaced with the following new Article 89:-

Existing Article 89

"The office of Director shall become vacant, if the Director:

(a) becomes bankrupt or makes any arrangement or composition with his creditors generally;
(b) becomes of unsound mind or a person liable to be dealt with in any way under the law relating to mental disorder;
(c) becomes prohibited by law from acting as a Director;
(d) resigns from his office by notice in writing given to the Company;
(e) is removed from his office by ordinary resolution of the Company in general meeting; and
(f) is absent from more than 50% of the Directors' meetings held in a financial year."

New Article 89

"The office of Director shall become vacant, if the Director:

(a) becomes bankrupt or makes any arrangement or composition with his creditors generally during his term of office;
(b) becomes of unsound mind or a person liable to be dealt with in any way under the law relating to mental disorder during his term of office;
(c) becomes prohibited by law from acting as a Director;
(d) resigns from his office by notice in writing given to the Company; or
(e) is removed from his office by ordinary resolution of the Company in general meeting."

FORM OF

Proxy

Kencana Petroleum

KENCANA PETROLEUM BERHAD (667490-M)

(Incorporated in Malaysia)

I/We ______________________________ (NRIC No. ______________)
(FULL NAME IN BLOCK LETTERS)

of ____

being a member/members of **KENCANA PETROLEUM BERHAD**, hereby appoint ______________________
(FULL NAME IN BLOCK LETTERS)

(NRIC No. ______________) of ______________________________

or failing him, ______________________________ (NRIC No. ______________)
(FULL NAME IN BLOCK LETTERS)

of ____

or failing him, the Chairman of the Meeting as my/our proxy/proxies to attend and vote for me/us and on my/our behalf at the Third Annual General Meeting of the Company to be held at Banyan & Casuarina Room, Sime Darby Convention Centre, 1A, Jalan Bukit Kiara 1, 60000 Kuala Lumpur, Malaysia on Friday, 14 December 2007 at 10.00 a.m. and at any adjournment thereof, in the manner indicated below:-

	RESOLUTIONS	FOR	AGAINST
1.	To receive the Audited Financial Statements for the financial year ended 31 July 2007 together with the Reports of the Directors and Auditors thereon.		
2.	To re-elect Chong Hin Loon as Director.		
3.	To re-elect Yeow Kheng Chew as Director.		
4.	To approve payment of Directors' fees amounting to RM62,000 in respect of the financial year ended 31 July 2007.		
5.	To re-appoint Messrs. KPMG as Auditors of the Company and to authorise the Directors to fix their remuneration.		
6.	To give authority to allot shares pursuant to Section 132D of the Companies Act, 1965.		
7.	Special Resolution – To authorise the Amendments to the Company's Articles of Association.		

Please indicate with an "X" how you wish your vote to be cast. If no specific direction as to voting is given, the proxy will vote or abstain at his discretion.

If appointment of proxy is under hand ______________________ Signed by *individual member/*officer or attorney of member/*authorised nominee of ______________________ (beneficial owner)	No. of Shares held : ______________ Securities Account No. : ______________________ (CDS Account No.) (Compulsory) Date : ______________	The proportions of my/our holding to be represented by my/our proxies are as follows:- **First Proxy** No. of Shares : ______________ Percentage : ______________% **Second Proxy** No. of Shares : ______________ Percentage : ______________%
If appointment of proxy is under seal The Common Seal of ______________________ was hereto affixed in accordance with its Articles of Association in the presence of:- __________ __________ Director Director/Secretary In its capacity as *member/*attorney of member/*authorised nominee of ______________________ (beneficial owner)	**Seal** No. of Shares held : ______________ Securities Account No. : ______________________ (CDS Account No.) (Compulsory) Date : ______________	

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NOTES:-

(a) A member of the Company entitled to attend and vote at the Meeting is entitled to appoint any person to be his proxy to attend and vote in his stead. A proxy may but need not be a member of the Company and the provisions of Section 149(1)(b) of the Companies Act, 1965 shall not apply to the Company.

(b) A member shall not be entitled to appoint more than two (2) proxies to attend and vote at the same meeting. Where a member appoints two (2) proxies, the appointments shall be invalid unless he specifies the proportions of his holdings to be represented by each proxy. Where a member of the Company is an authorised nominee as defined under the Securities Industry (Central Depositories) Act, it may appoint at least one (1) proxy in respect of each securities account it holds with ordinary shares of the Company standing to the credit of the said securities account.

(c) The instrument appointing a proxy shall be in writing under the hand of the appointor or of his attorney duly authorised in writing or, if the appointor is a corporation, either under its common seal or the hand of its officer or attorney duly authorised.

(d) To be valid, the instrument of proxy must be deposited at the Registered Office of the Company at Suite 405, 4th Floor, Magnum Plaza, No. 128, Jalan Pudu, 55100 Kuala Lumpur, not less than forty-eight (48) hours before the time fixed for holding the Meeting or at any adjournment thereof.

* Please strike out whichever inapplicable.

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STAMP

The Company Secretary

KENCANA PETROLEUM BERHAD
Suite 405, 4th Floor Magnum Plaza
No. 128, Jalan Pudu
55100 Kuala Lumpur
Malaysia

Kencana Petroleum

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