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KENCANA PETROLEUM BERHAD (667490-M)

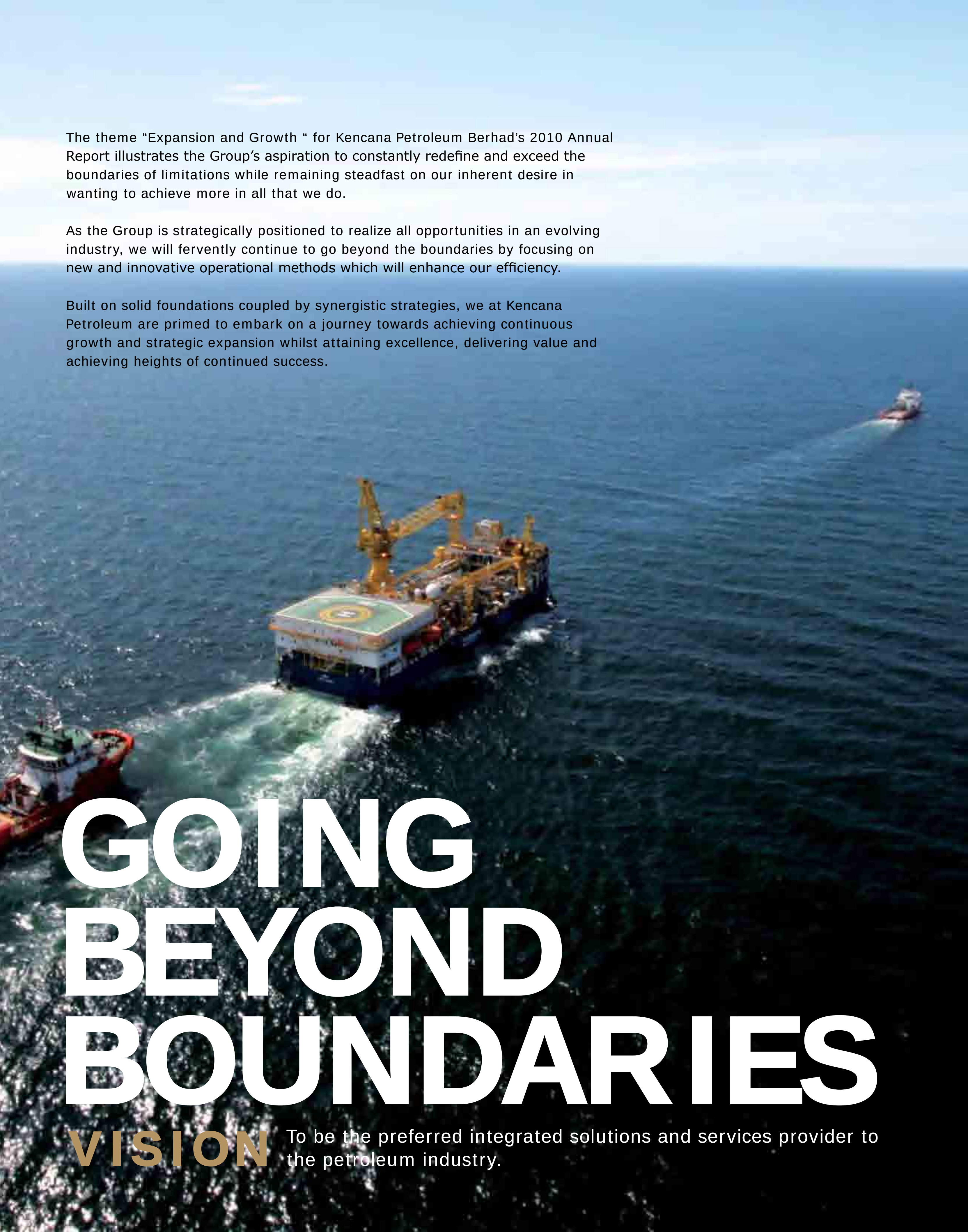
Annual Report 2010

Expansion & Growth

2010
Annual Report

Expansion & Growth

KENCANA
PETROLEUM



The theme "Expansion and Growth " for Kencana Petroleum Berhad's 2010 Annual Report illustrates the Group's aspiration to constantly redefine and exceed the boundaries of limitations while remaining steadfast on our inherent desire in wanting to achieve more in all that we do.

As the Group is strategically positioned to realize all opportunities in an evolving industry, we will fervently continue to go beyond the boundaries by focusing on new and innovative operational methods which will enhance our efficiency.

Built on solid foundations coupled by synergistic strategies, we at Kencana Petroleum are primed to embark on a journey towards achieving continuous growth and strategic expansion whilst attaining excellence, delivering value and achieving heights of continued success.

GOING BEYOND BOUNDARIES

VISION

To be the preferred integrated solutions and services provider to the petroleum industry.

6th Annual General Meeting

Date : Tuesday, 14 December 2010
Time : 11.00 a.m
Venue : Ballroom 1
Sime Darby Convention Centre
1A, Jalan Bukit Kiara 1
60000 Kuala Lumpur.

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- Vision

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ABOUT KENCANA PETROLEUM

Listed in December 2006 on the Main Market of Bursa Malaysia Securities Berhad, Kencana Petroleum is strategically positioned as the preferred integrated solutions and services provider for the upstream oil and gas industry.

Today, the Kencana Petroleum Group possesses a wide array of integrated services offering that encompasses our core business of providing engineering and fabrication services, hook-up and commissioning, onshore construction, offshore marine and drilling services.

Through our capability and expertise, we are also involved in building, refurbishing, repairing and converting marine vessels. Leveraging on our core capabilities, expertise and assets, we have been able to expand our business proposition.

With a steely commitment to be the best, our workforce of 4000 employees and an international footprint in Southeast Asia, India and Australia, the Kencana Petroleum Group continues to drive strong performances and constantly deliver exceptional values.

A SYMBOL OF SUCCESS - OUR NEW BRAND IDENTITY

KENCANA PETROLEUM

The Kencana Petroleum Group continues to make excellent strides forward as we move up the oil and gas value chain and reinforce our position as the preferred integrated solutions and services provider to the upstream oil and gas players. As we advance forward, the Group's companies have come together to embrace a bold, new brand identity – one that serves to convey the dynamism and strong momentum we are experiencing as we accelerate towards new heights of success.

The bold "K" which makes up our new logo mark, consists of interlocking gold and blue arrows which signify the convergence of the Group's diverse service offerings into one compelling integrated offering. What appears as a singular gold arrow actually comprises two smaller gold arrows to portray Kencana Petroleum's strong focus and dynamic momentum as a company committed to creating value and ensuring sustainable growth. Even the strokes in the word "Kencana Petroleum" are much bolder today and are symbolic of the Group's strength and commitment to delivering excellence by leveraging on bold new solutions and innovative technologies.

With our loyal and dedicated employees coming together as one to consolidate their wealth of experience and expertise and work hand in hand, Kencana Petroleum is certainly a force to be reckoned with.

CORPORATE MILESTONES

1982

- Incorporation of Hin Loon Engineering (M) Sdn Bhd (now known as Kencana HL Sdn Bhd), a resident contractor for major fabrication yards in Malaysia.

1995

- Incorporation of Best Wide Matrix Sdn Bhd (now known as Kencana Bestwide Sdn Bhd), an EPCC, Design, Engineering and Project Management company.

2000

- Establishment of the Lumut Fabrication Yard, covering an area of approximately 11 acres with a 5,000-tonne load-out jetty.

2002

- Awarded a major fabrication (Offshore Structures) license by Petronas. Kencana Petroleum is one of only seven licensees in Malaysia.
- Awarded the Group's first topside and jacket project.

2003

- Kencana HL received ISO 9001:2000 accreditation from Lloyd's Register Quality Assurance, Kuala Lumpur.

2004

- Kencana Bestwide received ISO 9001:2000 accreditation, awarded by Moody International Certification (Malaysia) Sdn Bhd.
- Completed a project involving wellhead platforms, gas compression modules and carbon dioxide (CO^2) removal skids.

2005

- Expansion and upgrading of the Lumut Fabrication Yard to an area of approximately 53 acres, with new 12,000-tonne load out jetty, covered workshops, covered fabrication areas and other facilities.
- Launched our new corporate identity across the Group.
- Secured our first overseas major contract to fabricate, precommissioning and load-out of an offshore production platform for installation offshore Australia.
- Undertook the conversion/ refurbishment of the first Mobile Offshore Production Unit (MOPU) in Malaysia.

2006

- Secured the Group's first engineering, procurement, construction, installation and commissioning (EPCIC) contract for the Bumi, Bulan and Suriya gas field developments in the Malaysia-Thailand Joint Development Area.
- Secured the Group's first major "brownfield" project for extensive modification of offshore platforms.
- Became a fully integrated services and solutions provider.
- Listed on the Main Market of Bursa Malaysia Securities Berhad.

2007

- Bagged a project to vertically build a self-elevating and re-locatable wellhead platform. This project is the first of its kind to be built in Malaysia and the second worldwide.

- Expansion and upgrading of the Lumut Fabrication Yard to approximately 123.7 acres, with an annual capacity of 40,000 tonnes, plus seven covered workshops that allow 24-hour fabrication activities in all weather conditions.

2008

- Kencana Petroleum completed the world's tallest self-elevating, re-locatable wellhead platform (150m) project.
- Incorporated Kencana Petroleum Ventures Sdn Bhd and Kencana Marine Drilling Sdn Bhd (formerly known as Kencana Mermaid Drilling Sdn Bhd), signaling the Group's intention to move into higher value added oil and gas services.
- Enhanced the Group's specialised steel fabrication and infrastructure capabilities and gained a higher yard capacity (48,000 tonnes annually) via the acquisition of Kencana Torsco Sdn Bhd (formerly known as Torsco Sdn Bhd).
- Moved into the marine engineering business, by building the Group's very first tender assisted drilling rig.
- Secured a contract to build 19 topside modules for floating drilling production storage and offloading (FDPSO).

2009

- Took delivery of KPV Kapas, the Group's first anchor handling tug and supply vessel (AHTS).
- Entered the hook-up and commissioning business. Kencana Pinewell secured its maiden long-term platform maintenance contract.
- Shortlisted as a finalist in KPMG's Shareholder Value Awards 2009.
- KHL received ISO 14001:2004 and OHSAS 18001:2007 from AFNOR Certification, France.
- Achieved 10 million man-hours without loss time injury (LTI) as of October 2009.

2010

- Strengthen offshore marine services offerings with the delivery of 8080 BHP Gemia, Group's second AHTS.
- Completed KM-1, Group's first tender assisted drilling rig and subsequently commenced drilling operation off the coast of Sabah.
- Introduced bolder, new brand identity that signify the dynamism and convergence of the Group's diverse service offerings into one integrated offering.
- Moved to the Group's new headquarters, Menara Kencana Petroleum at Solaris Dutamas, Kuala Lumpur.

PARTNERSHIPS

BEYOND PARTNERSHIPS

With a solid foundation and synergistic strategies, we are primed to take our journey towards an achievement-filled growth and expansion of self-sustaining and rewarding heights of continued success.

KENCANA PETROLEUM


KM-1
KENCANA
PETROLEUM

NOTICE OF ANNUAL GENERAL MEETING

NOTICE IS HEREBY GIVEN THAT THE SIXTH ANNUAL GENERAL MEETING OF THE COMPANY WILL BE HELD AT BALLROOM 1, SIME DARBY CONVENTION CENTRE, 1A, JALAN BUKIT KIARA 1, 60000 KUALA LUMPUR, MALAYSIA ON TUESDAY, 14 DECEMBER 2010 AT 11.00 A.M. FOR THE FOLLOWING PURPOSES:-

AGENDA

AS ORDINARY BUSINESS:

1. To receive the Audited Financial Statements for the financial year ended 31 July 2010 together with the Reports of the Directors and Auditors thereon.

2. To re-elect the following Directors who retire pursuant to Article 94 of the Company's Articles of Association:-

   (i) Yeow Kheng Chew **Resolution 1**
   (ii) Ir. Cher Lee Kiat **Resolution 2**
   (iii) Azmi Bin Ismail **Resolution 3**

3. To elect Tunku Dato' Mahmood Fawzy Bin Tunku Muhiyiddin who retires pursuant to Article 100 of the Company's Articles of Association. **Resolution 4**

4. To approve the payment of Directors' fees amounting to RM180,000 for the financial year ended 31 July 2010. **Resolution 5**

5. To declare a first and final single-tier dividend of 5% per ordinary share of RM0.10 each for the financial year ended 31 July 2010. **Resolution 6**

6. To re-appoint Messrs. KPMG as Auditors of the Company for the ensuing financial year, and to authorise the Directors to fix their remuneration. **Resolution 7**

AS SPECIAL BUSINESS:

To consider and, if thought fit, to pass the following as Ordinary Resolutions: -

7. **Authority to Issue and Allot Shares Pursuant to Section 132D of the Companies Act, 1965.** **Resolution 8**

   "THAT, subject to the Companies Act, 1965 ("the Act"), the Articles of Association of the Company and the approvals of the relevant governmental/regulatory authorities, where such approval is necessary, the Directors be and are hereby empowered pursuant to Section 132D of the Act, to issue and allot shares in the Company, from time to time and upon such terms and conditions and for such purposes the Directors may deem fit and expedient in the interest of the Company, provided that the aggregate of number of shares issued pursuant to this resolution does not exceed 10% of the issued and paid-up capital of the Company for the time being and that such authority shall continue to be in force until the conclusion of the next Annual General Meeting ("AGM") of the Company."

8. **Proposed Renewal of Shareholders' Mandate for Recurrent Related Party Transactions of a Revenue or Trading Nature**

Resolution 9

"THAT, subject always to the Listing Requirements of Bursa Malaysia Securities Berhad, the Act, the Company's Memorandum and Articles of Association, and all other applicable laws, guidelines, rules and regulations, approval be and is hereby given to the Company and its subsidiaries to enter into and to give effect to the recurrent related party transactions of a revenue or trading nature with the related parties as specified in Section 2.3 of the Circular to Shareholders dated 22 November 2010 which are necessary for the day-to-day operations and are carried out in the ordinary course of business and are on terms not more favourable to the related parties than those generally available to the public and are not detrimental to minority shareholders of the Company.

AND THAT such approval shall continue to be in force until: -

(i) the conclusion of the next AGM of the Company at which time it will lapse, unless by a resolution passed at the meeting, the authority is renewed;

(ii) the expiration of the period within which the next AGM of the Company subsequent to the date it is required to be held pursuant to Section 143(1) of the Act (but shall not extend to such extension as may be allowed pursuant to Section 143(2) of the Act); or

(iii) revoked or varied by resolution passed by the shareholders in a general meeting;

whichever is the earlier.

AND THAT, authority be and is hereby given to the Directors of the Company and its subsidiaries to complete and do all such acts and things as they may consider necessary or expedient in the best interest of the Company (including executing all such documents as may be required) to give effect to the transactions contemplated and/or authorised by this resolution."

9. To transact any other business of the Company for which due notice shall have been given.

By Order of the Board

NG HENG HOOI (MAICSA 7048492)
LEONG POI SAN (MAICSA 7052268)
Company Secretaries

Kuala Lumpur
22 November 2010

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 Lot 6.08, 6th Floor, Plaza First Nationwide, No. 161, Jalan Tun. H.S. Lee, 50000 Kuala Lumpur, not less than forty-eight (48) hours before the time fixed for holding the Meeting or at any adjournment thereof.

NOTICE OF ANNUAL GENERAL MEETING CONTINUED

EXPLANATORY NOTES

1. Resolution 8 - Authority to Issue and Allot Shares Pursuant to Section 132D of the Companies Act, 1965 ("the Act").

   The Proposed Resolution 8, if approved, will give the Directors of the Company, from the date of the above AGM, authority to issue and allot shares from the unissued capital of the Company for such purposes as the Directors may deem fit and in the interest of the Company. The authority, unless revoked or varied by the Company in general meeting, will expire at the conclusion of the next AGM of the Company.

   The Company is seeking the approval from shareholders on the renewal of the above mandate for the purpose of possible fund raising exercise including but not limited to further placement of shares for purpose of funding future investment project(s), working capital and/or acquisitions. The Company did not exercise the mandate under Section 132D of the Act given by the shareholders at the Fifth AGM held on 10 December 2009.

2. Resolution 9 - Proposed Renewal of Shareholders' Mandate for Recurrent Related Party Transactions of a Revenue or Trading Nature

   The Proposed Resolution 9, if approved, will enable the Company and its subsidiaries to enter into recurrent transactions involving the interests of the related parties, which are of a revenue or trading nature and are necessary for the Group's day-to-day operations, subject to the transactions being carried out in the ordinary course of business on terms not more favourable than those generally available to the public and are not detrimental to the minority shareholders of the Company. Further information on the Proposed Renewal of Shareholders' Mandate for Recurrent Related Party Transactions is set out in the Circular to Shareholders dated 22 November 2010, despatched together with the Company's 2010 Annual Report.

STATEMENT ACCOMPANYING NOTICE OF ANNUAL GENERAL MEETING

Director standing for election pursuant to Article 100 of the Articles of Association of the Company:-

(i) Tunku Dato' Mahmood Fawzy Bin Tunku Muhiyiddin

Details of the above Director are set out in the section entitled "Profile of Board of Directors". Details of his interest in the securities of the Company are set out in the section entitled "Analysis of Shareholdings".

FINANCIAL PERFORMANCE

REVENUE
-4%

RM1,090 million
2009 : RM1,141 million

GROSS PROFIT
+15%

RM240 million
2009 : RM208 million

EBITDA
+15%

RM208 million
2009 : RM181 million

PROFIT BEFORE TAX
+12%

RM172 million
2009 : RM153 million

PROFIT AFTER TAX
+15%

RM136 million
2009 : RM118 million

NET TANGIBLE ASSETS
+82%

RM716 million
2009 : RM393 million

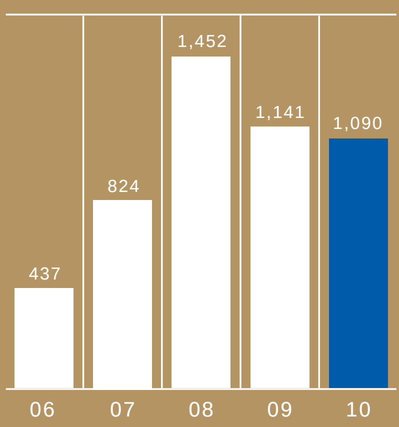
RETURN ON EQUITY
18.1%

2009 : 27.6%

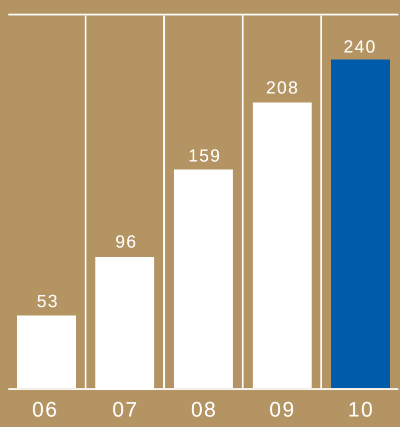
GEARING RATIO
0.3x

2009 : 0.5x

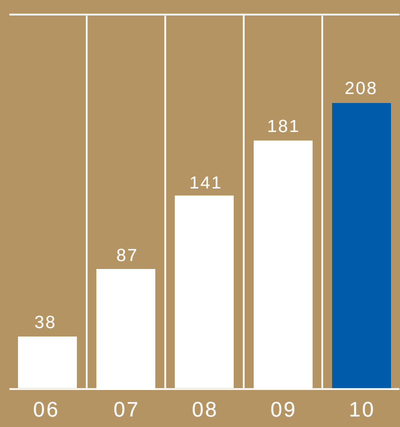
REVENUE
RM' Million



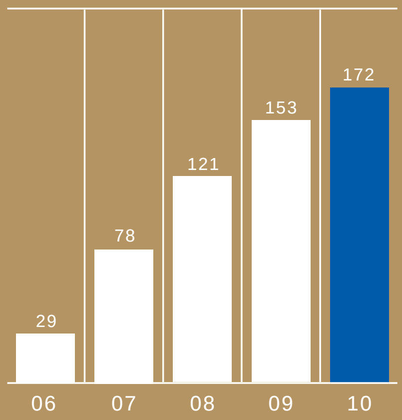
GROSS PROFIT
RM' Million



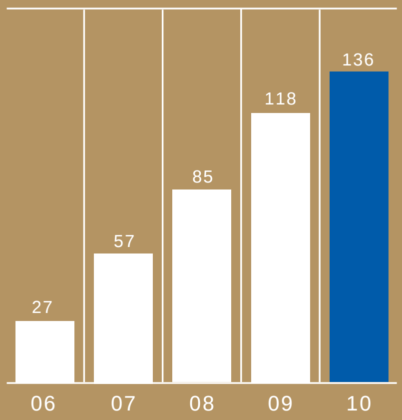
EBITDA
RM' Million



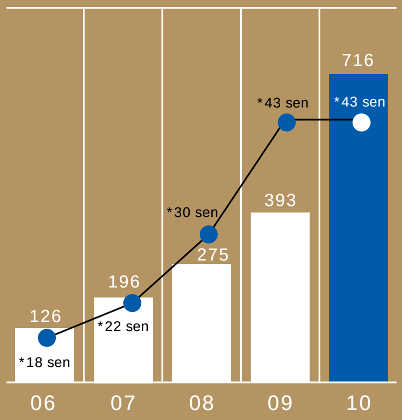
PROFIT BEFORE TAX
RM' Million



PROFIT AFTER TAX
RM' Million

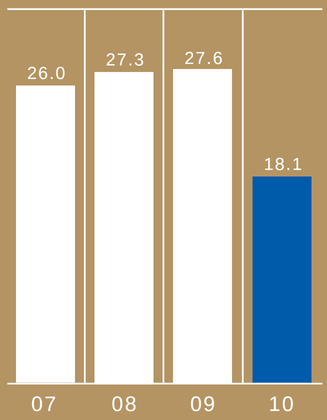


NET TANGIBLE ASSETS (NTA)
RM' Million

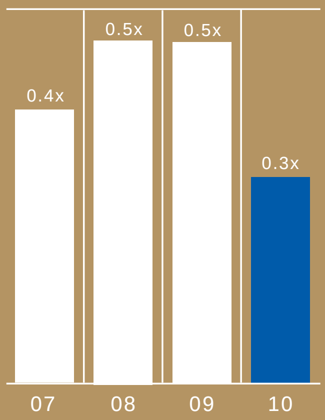


* NTA per share

RETURN ON EQUITY
%



GEARING RATIO



BUSINESS

BEYOND BUSINESS

Our years of experience enable us to overcome the obstacles and the evolving pace of our consolidated businesses and at the same time, create new opportunities to support long-term growth.

KENCANA PETROLEUM

TAN SRI NIK MOHAMED BIN NIK YAACOB
CHAIRMAN

CHAIRMAN'S STATEMENT

DEAR SHAREHOLDERS,

FINANCIAL YEAR 2010 WAS THE YEAR IN WHICH KENCANA PETROLEUM BERHAD WEATHERED THE CHALLENGES OF A DIFFICULT OPERATING ENVIRONMENT TO EMERGE AN EVEN MORE RESILIENT ENTITY. WHILE MANY INDUSTRY PLAYERS ADOPTED A CAUTIOUS STANCE IN THE FACE OF THE INITIAL UNCERTAINTY SURROUNDING THE PRICE OF OIL, THE GROUP CONTINUED TO PURSUE A STRATEGY OF EXPANSION AND GROWTH ON SEVERAL FRONTS. AS A RESULT, WE TURNED IN ANOTHER PROFITABLE YEAR WHILE MAKING STRONG HEADWAY IN OUR CORE FABRICATION AS WELL AS HOOK UP AND COMMISSIONING AND DRILLING SERVICES BUSINESSES. WITH THE BUILDING BLOCKS FOR FUTURE GROWTH SET FIRMLY IN PLACE, THE GROUP TODAY IS IN A STRONG POSITION TO CAPITALISE ON THE MANY OPPORTUNITIES BEFORE US IN OUR ROLE AS THE PREFERRED INTEGRATED SERVICE PROVIDER FOR UPSTREAM OIL AND GAS PLAYERS.

On behalf of your Board of Directors, it is my pleasure and privilege to present the fourth Annual Report and Audited Financial Statements of Kencana Petroleum Berhad for the financial year ended 31 July 2010 (FY2010).

PERFORMANCE OVERVIEW

The Group registered a record profit after tax (PAT) of RM136.2 million in FY2010. This 15.2% increase in PAT over the preceding year's RM118.20 million came on the back of better cost efficiencies in our fabrication activities and expansion into the hook up and commissioning (HUC) business. Revenue, however, declined by 4.4% to RM1.09 billion from RM1.14 billion previously as a result of a tougher operating environment and the "wait and see" approach taken by the oil and gas majors.

A large portion of FY2010's revenue came from the completion of the Group's first shipbuilding project, the USD136 million KM-1 tender assisted drilling rig. Substantial revenue was also generated from the fabrication of offshore facilities for three separate oil and gas fields for PETRONAS Carigali Sdn Bhd (PCSB) and works on topsides for two separate offshore platforms for Sarawak Shell Bhd. On top of these, we garnered significant revenue from fabrication works on production topside facilities for Murphy Sarawak Oil Co Ltd, procurement and construction activities for PCPP Operating Company Sdn Bhd, as well as design, fabrication and construction works on a manufacturing plant for Sunpower Malaysia Manufacturing Sdn Bhd.

At the end of FY2010, Kencana Petroleum's basic earnings per share stood at 10.72 sen per share against 10.08 sen previously (the comparative figure for FY2009 has been restated to include the effect of a bonus issue), while our market capitalisation stood at RM3.15 billion against RM1.9 billion previously.

On 15 January 2010, Kencana Petroleum paid out a first and final single tier dividend of 5% per ordinary share of 10 sen each in respect of the financial year ended 31 July 2009. For the financial year ended 31 July 2010, the Board is recommending that the Group maintain a first and final single tier dividend of 5% per ordinary share of 10 sen each amounting to RM8.29 million subject to shareholders' approval at the Annual General Meeting.

CHAIRMAN'S STATEMENT CONTINUED

It is my pleasure to report that Kencana Petroleum has once again been publicly recognised for our steadfastness in creating good shareholder value. We were declared one of the finalists in the Industrial Category at the KPMG Shareholder Value Awards 2010, ranking 27th out of the top 100 public listed companies in Malaysia who are recognised for creating value for their shareholders.

KEY DEVELOPMENTS

In line with our expansion and growth strategy for FY2010, we undertook several strategic measures to strengthen our integrated services offering and move up the oil and gas value chain.

HUC Capability Ramped Up

Following the restructuring and consolidation of the expertise of the various subsidiaries within the Group, the Group's offshore HUC and retrofitting/brownfield services are now under the ambit of Kencana Pinewell (KPW). In the last one year, KPW has been focusing its efforts on new business development and manpower resourcing activities as well as strengthening its position as a full-fledged offshore HUC player. Despite being a relatively young HUC outfit, the company has gone on to make strong inroads and secure approximately RM300 million worth of HUC projects, some RM200 million of which it has already fulfilled. The year also saw Kencana Pinewell experiencing growth on the retrofitting/brownfield services front.

Onshore Construction Activities Set to Grow

Kencana Torsco continues to oversee all the Group's onshore construction activities. Having secured contracts to build non-oil and gas related superstructures in the states of Melaka and Johor, this subsidiary has set its sights on exploring other infrastructure opportunities under Malaysia's new Economic Transformation Programme. Given the Group's core expertise in design, civil and structural engineering as well as the fabrication and installation of steel structures, we are very confident that Kencana Torsco will continue to do well in the industries it chooses to enter.

Offshore Marine Resources Redeployed

Last year, the Group ventured into the provision of offshore marine services as part of our ongoing effort to be an integrated service provider with a view to securing recurring income from vessel chartering opportunities. In this regard, we launched two anchor handling tug supply (AHTS) vessels and were successful in securing charters from third parties. However, industry charter rates for lower horsepower AHTS vessels have recently declined and we do not anticipate these rates will rebound much in the foreseeable future. Nevertheless, we expect our AHTS vessels to be fairly busy with jobs within the Group as we redeploy them to support areas such as our growing HUC business. We are confident that our investments in these floating assets will give us an edge when the market turns bullish again.

Strategic Acquisitions Undertaken

In August 2010, the Group's wholly-owned subsidiary Kencana Petroleum Ventures Sdn Bhd (KPV) acquired the remaining equity interest in Kencana Marine Rig 1 Pte Ltd (formerly known as Mermaid Kencana Rig 1 Pte Ltd), Kencana Marine Drilling Sdn Bhd

(formerly known as Kencana Mermaid Drilling Sdn Bhd) and Kencana Marine Rig 1 (Labuan) Pte Ltd (formerly known as Mermaid Kencana Rigs (Labuan) Pte Ltd) from Mermaid Drilling (Singapore) Pte Ltd for USD43.65 million. In addition, KPV also settled the loans and debts amounting to USD22.95 million for the Mermaid Group of Companies. Through KPV's equity acquisitions – 40% in Kencana Marine Drilling, 75% in Kencana Marine Rig 1, Singapore and 75% in Kencana Marine Rig 1, Labuan – the Group now controls all the companies operating the KM-1 tender assisted drilling rig.

Offshore Drilling Capability Strengthened

With KM-1 now fully within our control, we are today the only Malaysian group that has built its own drilling asset and has a wholly-owned offshore drilling capability. I am pleased to announce that KM-1 was completed on 15 August 2010 and that it has commenced its offshore drilling assignment with PCSB. KM-1's USD235 million drilling service contract, which also entails the provision of related equipment and personnel for offshore drilling services, will run for a fixed five-year term with the option to extend this for up to another five years. We expect KM-1's offshore drilling activities to begin contributing to the Group's earnings in FY2011.

Consolidation Bears Fruit

The Group's effort to restructure and consolidate the expertise of its many different subsidiaries continues to bear fruit. Aside from enhancing our business focus and ensuring the best use of our resources, the consolidation has allowed us to move fairly smoothly and quickly into high value offshore and onshore projects. Moreover, through consolidating our procurement and tendering activities, we have been able to offer better margins and cost efficiencies to our clientele as well as derive the same from our suppliers.

International Footprint Expanded

With competition on the domestic front intensifying, the Group has set its sights on opportunities abroad to expand the fabrication business. We have been aggressively pursuing opportunities in various markets and are now benefitting from our efforts to expand our international footprint. The year saw us making good inroads into India, Australia and Vietnam and strengthening our presence there.

Moving forward, we will continue to explore opportunities in India, the Middle East and Southeast Asia (Indochina in particular) with a view to expanding our earnings. There are several opportunities for the Group in India given the limited fabrication facilities in that country.

ORDER BOOK HIGHLIGHTS

I am pleased to report that as at the start of FY2011, the Group had an outstanding order book of RM1.9 billion comprising RM1.2 billion worth of fabrication, construction and HUC jobs and approximately USD235 million from the KM-1 drilling service contract. We have also been actively tendering for new jobs on the domestic and overseas fronts. At the time of writing, Kencana Petroleum has secured another 12 contracts worth RM707 million, some of which are expected to contribute positively to our earnings in FY2011.

While we envisage being kept busy in FY2011 with a strong order book already in hand, we will ramp up our capabilities and facilities as and when necessary to take on any new opportunities that come our way. The Group will also endeavour to secure enough work to maintain an order book of RM1 billion at any given time.

CORPORATE GOVERNANCE AND RISK MANAGEMENT

The Board and Management of Kencana Petroleum are committed to upholding the tenets of integrity, transparency and accountability throughout our business operations. We ensure sustainable value creation for all our shareholders by maintaining the highest standards of corporate governance and risk management at every level of our organisation. The Group's Statement on Corporate Governance and the Statement on Internal Control spell out the stringent internal controls and policies that are in place to protect our business reputation and stakeholders' interests. As our operating environment can be quite challenging given the volatility of oil prices, we have also implemented the necessary measures to mitigate the different types of risk.

CORPORATE RESPONSIBILITY

As part of our efforts to ensure the Group's sustainable growth, your Board and Management are committed to carry out responsible business practices that impact positively on our many stakeholders including our customers, employees, shareholders as well as the communities and environment in which we operate. In the year under review, we continued to undertake various corporate responsibility (CR) initiatives that created value in the areas of the workplace, community, environment and marketplace. The details of our efforts to ensure worker safety, enrich communities, create sustainable shareholder's value and protect our environment can be found in the Corporate Responsibility section found on pages 36 to 39 of this Annual Report.

OUTLOOK AND PROSPECTS

At the time of writing, the outlook for the global and domestic economies in 2011 remains positive with growth forecast at 4.2% and 6% respectively. Domestic growth is expected to be supported by the expansion in private investment, private consumption and exports while the manufacturing and services sectors are expected to spearhead sectoral growth. In the oil and gas sector, positive moves by PETRONAS to stem declining local production and step up domestic investment will see a rise in the enhanced oil recovery, deepwater, onshore downstream and marginal field activities. With many of these projects expected to be completed between 2013 and 2015, Malaysia's oil and gas service providers can expect to look forward to a vibrant 2011 and a promising future. In light of these positive developments, Kencana Petroleum envisages that demand for our integrated service provision offerings, both offshore and onshore, will remain encouraging as we move forward into the new financial year. However, your Board of Directors is also mindful that external factors such as a prolonged weakness in the global economy and oil price volatility may impact upon the oil and gas majors' development plans and our own performance. Barring unforeseen circumstances, the Board of Directors is reasonably confident that the prospects for the Group remain positive.

CHAIRMAN'S STATEMENT CONTINUED

APPRECIATION

On behalf of Kencana Petroleum's Board of Directors, I wish to express my heartfelt appreciation to all our shareholders, PETRONAS and all other clients for their continuing support and unwavering confidence in the Group. I also wish to convey my sincere gratitude to the Malaysian Government, regulatory authorities as well as our business partners, contractors, suppliers, bankers and financiers for their steadfast support and the kind cooperation extended to us.

We would not be where we are today without the hard work and sacrifices of our loyal employees. My utmost gratitude to our employees for the diligence and dynamism they have displayed amidst the challenges of a highly competitive operating environment. I also wish to convey my deep appreciation to my colleagues on the Board and our senior management team for their strong leadership and prudent insights which helped us charter a smooth course over FY2010 and turn in another profitable year. I look forward to working with all of you as we rise up to face the challenges and capitalise on the opportunities that FY2011 may present.

I trust that all our stakeholders will continue to lend us their unrelenting support as we accelerate forward by building upon the good momentum already in place.

Thank you.

TAN SRI NIK MOHAMED NIK YAACOB
CHAIRMAN

DATO' MOKHZANI BIN MAHATHIR
GROUP CHIEF EXECUTIVE OFFICER

GROUP CHIEF EXECUTIVE OFFICER'S REVIEW

DEAR SHAREHOLDERS,

FY2010 MARKED ANOTHER STRONG YEAR FOR KENCANA PETROLEUM BERHAD. WE LEVERAGED OURSELVES ON A CAREFUL STRATEGY OF EXPANSION AND GROWTH AMIDST MARKET UNCERTAINTIES AND DELIVERED SOME VERY TANGIBLE RESULTS ON THE FINANCIAL AND OPERATIONAL FRONTS. BY THE YEAR'S END, WE GENERATED A REVENUE OF RM1.09 BILLION, TURNED IN A RECORD PROFIT AFTER TAX OF RM136.2 MILLION AND MAINTAINED AN OUTSTANDING ORDER BOOK VALUED AT ANOTHER RM1.9 BILLION.

A TOUGH OPERATING ENVIRONMENT

Prior to kicking off FY2010, we had to contend with the challenge of extreme oil price volatility. From a previous high of over USD147 per barrel in July 2008, the price of crude oil nose-dived to some USD34 per barrel in January 2009 in tandem with the drastic drop in demand for oil in the US and plunging global equities. Amidst the uncertainties plaguing the industry, many industry players began to embrace a cautious stance. Even the oil and gas service providers that ventured forth had to contend with a highly competitive environment given the rush for the limited projects on hand. Following a strengthening of the global economy, oil prices returned to USD70 a barrel around August 2009. Over the 12-month period covering the Group's financial year ended 31 July 2010, the price of oil continued to hold firm averaging between USD67 and USD82 per barrel. Despite the price of oil being relatively stable, oil and gas players were seen taking a more risk averse strategy when implementing new projects.

MOVING UP THE OIL AND GAS VALUE CHAIN

Against this tough backdrop, the Group's many businesses continued to pursue a strategy of growth and expansion to move the Group up the oil and gas value chain. To complement our core engineering and fabrication activities, we focused our efforts on strengthening our offshore and onshore services as well as marine engineering capabilities. By taking on a larger spread of projects in the hook up and commissioning segments, leveraging on higher value-added activities and focusing on activities that provide recurring income streams, we were able to expand our earnings base and reinforce our role as the preferred integrated service provider for the upstream players.

Hook up and Commissioning – Making Strong Headway

Kencana Pinewell, the Group's subsidiary tasked with offshore hook up and commissioning (HUC) as well as retrofitting/brownfield services, made strong headway beyond its initial RM6 million contract to secure approximately RM300 million worth of HUC projects.

GROUP CHIEF EXECUTIVE OFFICER'S REVIEW CONTINUED

To date, Kencana Pinewell has fulfilled RM200 million worth of these HUC contracts for PETRONAS Carigali Sdn Bhd (PCSB), Carigali-PTTEPI Operating Company Sdn Bhd (CPOC) and ExxonMobil Exploration and Production Malaysia Inc (EMEPMI).

The year's key contracts included one for PCSB valued at RM33.9 million. This involved works on seven offshore structures for the Kanowit Central Processing Platform that forms part of the Kumang Cluster Development Project located offshore Sarawak. This technically challenging project involved the provision of project management, procurement services, construction support, tools, consumables and some 250 personnel. The contract for CPOC valued at RM28 million included procurement, onshore fabrication, offshore installation and HUC activities related to CPOC's project in the Malaysia Thailand Joint Development Area. Kencana Pinewell also secured a construction service contract for EMEPMI's DU3744 project. Valued at RM90 million over three years, this contract which runs from September 2009 to September 2012, speaks volumes of our HUC unit's credibility and technical competency. Over the course of the year, Kencana Pinewell also experienced business growth on the retrofitting/brownfield services front.

Going forward, Kencana Pinewell is gearing itself up to undertake decommissioning activities for platforms that are nearing the end of their life cycles. Given that it also has the integrated engineering, fabrication and marine spread capabilities of the Group to leverage on, Kencana Pinewell is today probably the only HUC entity in Malaysia offering such a comprehensive range of solutions. With the strength of the Group behind its every venture, this relatively young company is in a strong position to secure and fulfill large HUC contracts.

Onshore Construction – Moving Into New Areas of Opportunity

In line with our strategy of spreading our earnings base, our onshore construction specialist, Kencana Torsco, continued to make good inroads into new non-oil and gas related opportunities. This subsidiary successfully completed approximately RM167 million worth of projects for Sunpower Malaysia Manufacturing Sdn Bhd's solar cell fabrication facility in Melaka. Kencana Torsco's ability to undertake the construction of the sub-structure, superstructure, cladding, chilling/cooler plant as well as electrical sub-station and other purpose-built structures in a highly complex environment with very stringent requirements, is an apt reflection of its civil and structural engineering prowess.

On top of this, Kencana Torsco undertook smaller non-oil and gas related projects that leveraged on the Group's core expertise in design, civil and structural engineering as well as steel fabrication and installation works. Going forward, we will explore new infrastructure opportunities under Malaysia's various transformation programmes. While the margins from these kinds of projects may not be as lucrative as oil and gas-related projects, it will help us strengthen our foothold in new areas of opportunity.

Offshore Drilling Operations – A Feather in Our Cap

The Group's wholly-owned KM-1 tender assisted drilling rig was completed on 15 August 2010 and was deployed to the Erb West field off Sabah to commence its five year USD235 million drilling services contract for PCSB. We are proud to have KM-1 commence drilling operations on 2 September 2010. Even tough, the PCSB charter is this new-build's first contract, KM-1 began operations without any problems, which is a testimony to the quality of the fabrication yard and the rig crew's excellent technical capabilities.

The Group's acquisition of the companies operating the KM-1 is indeed a feather in our cap. We have made strong advances in securing a long-term business with recurring income streams and higher margins. Currently, the Group is delving into the various field development plans and assessing the areas where other specialised assets may be needed. If provided with long enough lead time, we may consider building the necessary assets to fulfil these needs where economically viable.

Offshore Marine Operations – Allocating Resources Where Required

As part of our strategy to garner long-term recurring income, we ventured into the provision of offshore marine services last year by launching the 67%-owned 5,220 BHP KPV Kapas and wholly-owned 8,080 BHP Gemia anchor handling tug supply (AHTS) vessels. While we were successful in securing several vessel chartering opportunities, industry charter rates for lower horsepower AHTS vessels have recently declined. As such, we need to explore other areas, such as our HUC and offshore topsides maintenance business, where these AHTS may prove to be a more effective resource.

To ensure we are well placed to make the most of the next upswing in the market, we are exploring opportunities to construct other new vessels with the latest technologies and equipment for deepwater exploration. We will keep our eyes and ears open for such opportunities, present our ideas to our clientele and propose vessel construction at our yards. Overall, the vessel charter business is a good fit for Kencana Petroleum because it complements everything else that we do. These vessels will also come in handy when we tender for the many offshore maintenance contracts that will be awarded in the near future.

Overseas Operations – Strengthening Our Market Presence

The year saw us making strong inroads into India, Australia and Vietnam and strengthening our market presence there. In India, we secured contracts for three projects offshore India, all of which will contribute towards FY2011's earnings. These included a contract from the Afcons Gunanusa Joint Venture for the fabrication of jackets for an offshore process platform as well as two fabrication, load-out and sea-fastening contracts from Larsen & Toubro. In Australia, we secured a contract from Saipem SA to fabricate superstructures for the Chevron Australia's Gorgon Project. Over the course of the year, the Group's collaboration with logistic provider Yinson Marine Services Sdn Bhd also secured a RM33 million service contract from PETRONAS Carigali Vietnam Ltd for the provision of offshore support vessel services for Vietnam.

GROUP CHIEF EXECUTIVE OFFICER'S REVIEW CONTINUED

To further expand our earnings base, we have set our sights on fabrication and construction opportunities in India, the Middle East and Southeast Asia. We are especially optimistic about our prospects in India given the limited fabrication facilities there as well as the many opportunities to tap into infrastructure investments totalling some USD1 trillion under India's 12th Five-Year Plan beginning 2012. Furthermore, the signing of the Malaysia-India Comprehensive Economic Cooperation Agreement by January 2011 which targets trade of USD15 billion by 2015 augurs well for us.

MAINTAINING A STRONG ORDER BOOK

The Group's businesses continued to pursue new projects over the course of the year and by the start of the new financial year, we had in hand an outstanding order book amounting to RM1.9 billion. Of this total, USD235 million was for the KM-1 drilling services and another RM1.2 billion for EPCIC works as well as offshore and onshore contracts.

The KM-1 commenced drilling operations for PCSB in early September 2010 under a charter that will run for a fixed five-year term with the option to extend this for up to another five years. The charter also entails the provision of the necessary equipment and personnel for offshore drilling services. At a respectable charter rate, we anticipate a steady stream of revenue from this rig throughout FY2011.

The year also saw us securing a RM201 million contract from Newfield Peninsula Malaysia Inc (Newfield) for the procurement, construction, commissioning, load-out and sea-fastening of the topside, central processing platform, living quarters and bridge for the PM329 East PIATU Development Project, one of biggest fabrication projects awarded by Newfield this year. This is our maiden central processing platform job and we are hopeful that it will open up other opportunities for similar projects in the future.

On the HUC front, Kencana Pinewell secured contracts worth a combined value of RM15.6 million from PCSB HUC for the provision of project management, procurement services, construction support, manpower, construction equipment, tools and consumables for the Sumandak Non-associated Gas Development Project and the Semarang (Phase 1 – Accelerated Infill Drilling) Redevelopment Project, both offshore Sabah. Over the year, we also bagged another contract from Newfield for the provision of project management, manpower, tools and equipment for the demolition and commission of the Puteri wellhead platform, part of the Puteri Restoration Project offshore Terengganu. On the onshore construction front, Kencana Torsco secured a RM9.1 million contract from Lynas Malaysia Sdn Bhd for works on Tank Package 3 under the Lynas Advanced Materials Project.

More recently, in October 2010, the Group clinched a RM16.4 million deal with PCSB for the provision of a single buoy mooring overhaul for PCSB's Sarawak operations and a RM22 million platform substructure deal with Newfield for the East Piatu development project.

On the overseas front, we expect our RM51 million contract in India for the Afcons Gunanusa Joint Venture, our two Indian contracts for Larsen & Toubro worth a combined USD29.5 million, as well as our RM166 million contract from Saipem SA for Chevron Australia's Gorgon Project, to begin contributing to the Group's earnings in FY2011. The Group's fabrication yards are capable of taking on twice the amount of work that we are now currently undertaking and we will continue to make improvements in anticipation of more overseas projects. Going forward, our challenge will be to remain competitive in the new markets we venture into. We are confident that our integrated service provision offering and strong track record will give us the competitive edge that we need in the international arena.

The Group continues to tender for new jobs of which 40% are domestic opportunities and 60% overseas opportunities. Several other projects we are tendering for also look promising and we expect to be kept rather busy in FY2011. While bids have become rather competitive, our operational efficiencies, depth of experience and integrated offering have all held us in good stead in the bidding process. Going forward, we will ensure we secure enough work to maintain an order book of RM1 billion at any given time.

STRENGTHENING OUR COMPETITIVE EDGE

Kencana Petroleum has built up a reputation as a company that delivers on its promises. Our strong project execution and commitment to meeting delivery within budget and on schedule speak volumes about our capabilities and this is what keeps our clients coming back to us. Even as we continued to focus on these fundamentals in FY2010, we also undertook various other initiatives to strengthen the Group's competitive edge.

Enhancements to Facilities

In line with our expansion and growth strategy, we invested some RM34 million to strengthen our capabilities at the Kencana Fabrication Yard in Lumut. The yard size was increased to 172 acres, the load-out jetty capacity to 30,000 MT and the quayside depth to 9 metres. The yard now has four load-out areas each boasting increased capacity. We also undertook other infrastructural enhancements including improvements to our workshop, warehouse, offices and facilities as well as made improvements to our crane and handling equipment plus fabrication equipment. With these improvements, our facilities are now better laid out, our production processes are more efficient, plus we are well prepared to take on bigger domestic and overseas jobs.

As part of our efforts to strengthen our HUC capability, we also enhanced the facilities at the Kemaman Supply Base as well as invested in a new facility at Teluk Kalong, Kemaman which is being utilised as a yard to stage equipment and undertake minor fabrication.

Resources Pooled for Better Effect

We continue to pool our resources to derive better cost efficiencies and stay ahead of the competition. By consolidating procurement and tender activities, we have made good headway in deriving better rates from our suppliers and have been able to put in more competitive bids on client projects. Today, a centralised engineering services department supports all engineering requirements relating to bidding and procurement

GROUP CHIEF EXECUTIVE OFFICER'S REVIEW CONTINUED

activities. Through this initiative, any subsidiary can now tap into the Group's pool of engineering expertise as and when they are required. The restructuring and consolidation of expertise of the Group's many different subsidiaries have also enabled us to accelerate our move into the areas of high value offshore and onshore projects.

All Under One Roof

FY2010 also saw the Group's subsidiaries previously located at various locations coming under one roof at the Group's new headquarters at Menara Kencana Petroleum in Solaris Dutamas, Kuala Lumpur. With the move, all our key operations are under one roof and our businesses better integrated. This initiative has also brought about several other benefits. We are seeing the management and employees beginning to think more effectively and efficiently as one as there is a more conducive workplace environment that fosters better interaction. With the bulk of our management resources located in one area, any business can now tap into the expertise and experience of another business to develop its own industry segment and hold out against the competition.

In line with our move to integrate our business resources, we also took measures to enhance our brand identity, specifically the Group's logo. Kencana Petroleum's new logo today serves to convey the message that we are a bolder, stronger, more dynamic company. Even as all the Group's companies embrace this common look and feel, we expect to strengthen our brand recall within our target markets.

POISED FOR SUCCESS

Today, Kencana Petroleum is well positioned to take advantage of the many opportunities before us as the domestic oil and gas sector begins to gather upward momentum again on the back of revitalised development activities. We foresee that the domestic opportunities will be of greater interest to local companies as compared to previous years.

These developments augur well for local oil and gas service providers and Kencana Petroleum for one intends to position itself at the forefront of these activities. Given the Group's well-managed fabrication yards, astute management and delivery track record, we are well positioned to leverage on PETRONAS' emphasis on domestic operations. We have been steadily building our capabilities by bringing in the necessary expertise, experience and technologies and are well geared up to take on these new opportunities. While we already have the assets as well as yard and workshop capabilities to take on deepwater projects, we will explore business to business alliances to strengthen our expertise in this area.

The environment that we are operating in is a very dynamic one and we will continue to keep our finger on the pulse of what is happing. To take advantage of the opportunities that may arise, we will continue to remain flexible and ensure that Kencana Petroleum is run in a very lean, mean and agile manner. At the same time, we will also continue to focus on the areas of business that we are good at by improving our control of the production environment and squeezing better margins without sacrificing quality, delivery and safety. Going forward, Kencana Petroleum will continue to undertake the necessary measures to enhance our operational efficiencies and profit margins as well as to spread our risks. The Group will continue to pursue a strategy of balancing out short-term, one-off projects with businesses that bring recurring income. As such, we will

continue to invest in the offshore and onshore services businesses and our marine spread, all of which are growing steadily. The ideal earnings ratio for the Group down the road would be that our core engineering and fabrication business contributes half our earnings, while the rest of our businesses generate the other half. Drilling operations too will play a big part over the long-term now that the KM-1 has been deployed.

To further grow our earnings base, we will continue to go beyond local shores to focus on more opportunities abroad. Our expertise and experience as an integrated service provider affords us greater exposure to a wider spread of segments and we expect to benefit from being able to undertake more activities throughout the oil and gas value chain. On top of this, investors recognise Kencana Petroleum as a stable company practising prudent financial management, while our constant year-on-year PAT growth too continues to be an attractive investment proposition.

While we are reasonably confident about the Group's prospects going into FY2011, we are also mindful of the concerns about the impending slowdown in global growth next year. The possibility of a double-dip recession and its repercussion on oil prices may weigh down our performance and plans. Nevertheless, we will position ourselves to face all challenges and make the most of all opportunities before us. We believe that the strong foundations we have set in place these last few years will help us weather any storm that comes our way.

APPRECIATION

I wish to convey my deep gratitude to our valued shareholders as well as PETRONAS and our other valued customers for their unwavering confidence in us and for continually challenging us to better ourselves. I also wish to convey my sincere appreciation to the Malaysian Government, the regulatory authorities and other government agencies for their steadfast support of the Group and for helping create an environment conducive to business. My sincere thanks also goes to our business partners, contractors, suppliers, bankers and financiers for their continuing support.

My deep gratitude to our Board of Directors for your good counsel and wise insights that helped steer us through yet another challenging year. My colleagues on the leadership team and the Group's employees too have worked long and hard to get us where we are today and for that, I am deeply grateful. We also recognise the many sacrifices made by our employees' families and loved ones and thank them from the bottom of our hearts. I call upon all stakeholders to continue working hand in hand to take the Group to greater heights of success.

Thank you.

DATO' MOKHZANI MAHATHIR
GROUP CHIEF EXECUTIVE OFFICER

FABRICATION

EVENTS FOR THE YEAR

19 NOVEMBER 2009
First Steel Cutting Ceremony for Afcons-Gunanusa Joint Venture Project
Kencana Fabrication Yard, Lumut

10 DECEMBER 2009
5th Annual General Meeting
Sime Darby Convention Centre
Kuala Lumpur

11 JANUARY 2010
Official Launch of KPV Kapas
Ri-yaz Heritage, Kuala Terengganu

24 JANUARY 2010
Kencana-SIC Bikeathon 2010
Sepang International Circuit

25 FEBRUARY 2010
Sailaway Ceremony for Newfield's West Belumut Wellhead Platform
Kencana Fabrication Yard, Lumut

12 MARCH 2010
Visit to Persatuan Sindrom Down Malaysia
Jalan U-Thant, Kuala Lumpur

2 APRIL 2010 & 20 JULY 2010
Kencana Pinewell's Fishing Competition
Pantai Teluk Mak Nik, Kemaman /
Kolam Memancing Pengkalan Pandan

12 APRIL 2010
Petronas Visit
Kencana Fabrication Yard, Lumut

13-15 APRIL 2010
Malaysia Services Exhibition (MSE 2010)
Dubai

8 – 9 MAY 2010
Teambuilding for Kinabalu Project
Tambun, Ipoh

25-27 JUNE 2010
Sponsorship for Sparks of Broadway by Persatuan Sindrom Down Malaysia
Auditorium DBKL, Kuala Lumpur

26 JULY 2010
Extraordinary General Meeting
KLGCC, Kuala Lumpur

12 AUGUST 2010
Launching Ceremony – PCSB Behavioural Safety and HSE Regulatory Compliance
Kencana Fabrication Yard, Lumut

15 AUGUST 2010
KM-1 Completion Ceremony
Kencana Fabrication Yard, Lumut

24 AUGUST 2010
Majlis Berbuka Puasa by Yayasan Harapan Kanak-Kanak with YAB Datin Paduka Seri Rosmah Mansor
One World Hotel, Petaling Jaya

29 AUGUST 2010
The Hoisting of Jalur Gemilang on KM-1
Kencana Fabrication Yard, Lumut

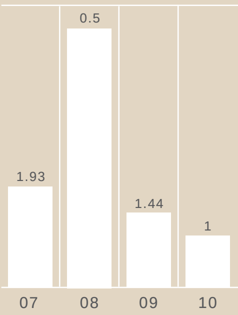
1 SEPTEMBER 2010
Majlis Berbuka Puasa by Kencana Pinewell with orphans
Awana Kijal Golf Beach & Spa, Kemaman

24 SEPTEMBER 2010
CPDR-A Sailaway Ceremony
Kencana Fabrication Yard, Lumut

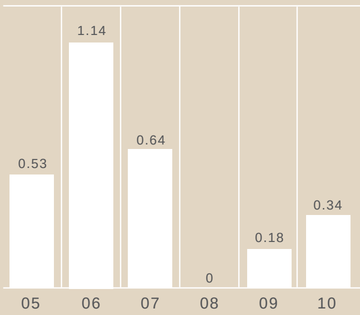
CORPORATE RESPONSIBILITY

GROWING PROFITABILITY, ACTING RESPONSIBLY

TOTAL RECORDABLE CASE FREQUENCY 2007 - SEP 2010



LOSS TIME INJURY FREQUENCY 2005 - SEP 2010



AS A KEY PLAYER IN THE OIL AND GAS SECTOR, KENCANA PETROLEUM IS COMMITTED TO CARRYING OUT RESPONSIBLE BUSINESS PRACTICES THAT CREATE VALUE AND IMPACT POSITIVELY ON OUR MANY STAKEHOLDERS INCLUDING OUR CUSTOMERS, EMPLOYEES, SHAREHOLDERS AS WELL AS THE COMMUNITIES AND ENVIRONMENT IN WHICH WE OPERATE. OUR CORPORATE RESPONSIBILITY INITIATIVES IN THE AREAS OF THE WORKPLACE, COMMUNITY, ENVIRONMENT AND MARKETPLACE SERVE TO EMPOWER OUR STAKEHOLDERS AND ENSURE THE SUSTAINABLE GROWTH OF OUR BUSINESS.

SAFE WORKPLACE PRACTICES

Workplace safety and health are of paramount importance at Kencana Petroleum and we are committed to conducting our operations in ways that safeguard all employees, sub-contractors and visitors to our sites. In fact, our workplace mantra is "Safety is not compromised for any reason whatsoever". Strict measures are in place to ensure that our employees are competent enough to perform their jobs safely and we assess all hazards and apply practical controls to mitigate risks to acceptable levels. The Group's Health, Safety and Environment Management System is our primary tool of reference to manage our activities safely, efficiently and effectively, without harm to people, the environment, materials or equipment.

The year under review saw us continuing to implement a host of proactive Health, Safety and Environmental (HSE) measures to ensure workplace safety and health and the preservation of our surroundings. The following leading indicators are in place at the Kencana Fabrication Yard in Lumut:

Leading Indicators

- **Management HSE Findings Walkabout** – The Managing Director (MD), General Managers, Senior Managers and Project Managers carry out day and night walkabouts throughout the yard. These activities help us identify hazards and any risks that may have been overlooked so that corrective action can be taken in a timely manner.
- **MD HSE Dialogue** – The MD initiates dialogue sessions with different groups of employees and sub-contractors on a bi-monthly basis.
- **Sub-Contractor HSE Inspection and Audit** – Our sub-contractors are audited on a monthly basis. If anything is amiss, we will issue a corrective-preventive action request (C-PAR) and the responsible party will have to respond within three working days. A stringent pre-qualification process ensures only competent sub-contractors are hired.
- **Quarterly HSE Campaigns** – These workplace HSE awareness campaigns enable us to analyse accident causation trending and focus on any areas that require attention. Various programmes are implemented in conjunction with the quarterly campaigns to increase safety awareness.
- **Quarterly Emergency Drill Exercise** – These quarterly drills involving scenarios such as medical emergencies, rescues at height and fire evacuation, ensure all workers are prepared for emergencies. The drills also test the effectiveness of our emergency response capabilities.
- **HSE Task Force** – This task force comprises teams with different expertise brought together to identify hazards, assess risk and apply controls.
- **UCUA (Unsafe Condition Unsafe Act) Reporting and Trending Analysis** – A UCUA card is made available so that anyone can report unsafe conditions and acts. The cards are reviewed by the respective HSE officers and trending is plotted to ascertain weaknesses. This helps HSE officers to focus on key areas where additional controls are required.
- **Operations and Project HSE Committee Inspection and Action Plan** – This entails a committee comprising management and worker representatives engaging in a review of high-risk activities, adopting action plans, appointing the action parties and resolving issues within specific timeframes.
- **Noise Monitoring and Controls** – We conduct annual noise exposure tests in various zones of the workplace to help us identify areas that require hearing protection controls.
- **Chemical Health Risk Assessment** – A five-yearly assessment is carried out to identify activities which are hazardous to employees' health and the necessary controls implemented to reduce employees' exposure to these elements. These controls may include fume dilution methods, an effective work rotation system as well as the use of respirators.

CORPORATE RESPONSIBILITY CONTINUED

As a result of these and other initiatives, we have been reducing the Total Recordable Case Frequency (TRCF) rate steadily since 2007 and were able to achieve a TRCF of 1.0 as of September 2010 against the year's 1.2 target. Our being accredited the OHSAS 18001:2007 Occupational Health and Safety Management System as well as achieving 10 million-man hours without a loss time injury (from December 2007 until October 2009) is an apt reflection of the effectiveness of our HSE measures to date.

Visitors to our Kencana Fabrication Yard, Lumut have commented how impressed they are with the yard's housekeeping standards. Well aware that our existing and potential clients look for such achievements to benchmark the contractors they will work with, the Group is committed to maintaining the highest HSE standards throughout our operations.

IMPACTFUL COMMUNITY INITIATIVES

Kencana Petroleum's commitment to enriching communities currently entails our making donations to charitable organisations and the underprivileged as well as undertaking activities that help elevate the wellbeing and standards of living of the communities residing near our operations. From attending to the needs of orphans and the physically disabled, to our involvement in supporting educational pursuits, we are committed to empowering people.

FY2010 saw us channelling some RM200,000 in total towards community and educational initiatives covering support to individuals and organisations like BAKTI, Persatuan Sindrom Down Malaysia and Yayasan Harapan Kanak-Kanak Malaysia. We also worked together with the Ministry of Health to undertake quarterly blood donation programmes with a total of 324 employees donating blood over the year.

Kencana Petroleum is also committed to undertaking CR initiatives in the areas of "green sports", specifically activities that help elevate the cycling fraternity an unearth young talents. We have been following and promoting cycling activities with great interest as this is one of the more thrilling speed sports that involve non-fossil energy and is in line with our objective of reducing pollution and promoting healthy living. Through our involvement in cycling, we have had the privilege of sponsoring the Malaysian national mountain bike team for the inaugural 455-km Tour de Timor in Timor Leste as well as collaborating with the Sepang International Circuit (SIC) to organise the SIC-Kencana Petroleum Criterium Race involving more than 400 cyclists from around the region.

In FY2010, we continued to follow through our green sports initiatives. To promote sports at the grassroots level, we co-organised the SIC-Kencana Bikeathon 2010 which took place at the Sepang F1 International Circuit. Through the event's criterium and mountain bike races incorporating the Junior, Veteran and Open categories, up-and-coming riders were able to showcase their abilities while the more established national riders had a platform to prepare for the bigger races. We are proud to do our part in supporting Malaysia's athletes on an annual basis. Going forward, the Group will continue to explore other such opportunities that will promote cycling at the grassroots and international levels.


Over time, we hope to be able to develop and own Group-specific sports initiatives that will be the anchors for our green sports initiatives. We are also exploring ways to implement education-led initiatives that will provide us with a skilled and high-calibre talent pool to draw from for the Group's sustainable progress.

GOOD ENVIRONMENTAL PRACTICES

The Group and its subsidiaries are committed to operating in a responsible and environmentally friendly manner in compliance with local and international environmental best practices and legislation. Our receiving certification for the ISO 14001:2004 Environmental Management System (EMS) demonstrates how serious we are about protecting the environment.

To date, our green initiatives have included energy conservation activities, water sampling for wastewater and effluents discharge as well as oil spill containment at our maintenance workshops and mobile work zones. We have also constructed bund walls for oil, paint and chemical storage facilities and waste storage facilities, as well as put in place filtration and dust collectors for all auto blast machines to eliminate the release of contaminated particles. With regard to scheduled wastes, we have an effective segregation, storage and disposal system in place. Disposal of scheduled wastes is done in accordance with legislative requirements while licensed contractors undertake all collection and disposal activities. Our conservation efforts have resulted in cost savings on energy, water consumption and paper, in addition to providing us better controls over the management of chemicals and other hazardous materials. To date, we have also successfully reduced waste and carbon emissions.

We are also pleased to report that we are the first oil and gas corporation in the state of Perak to engage the National Landscape Department and the local council in a tree planting programme, and are among the few oil and gas corporations that support the Sustainability Development Initiative through our EMS. Currently, we are undertaking initiatives to further green our Lumut yard and the surrounding areas. Our environmental efforts are going a long way in making our operations more transparent and credible in the eyes of upstream oil and gas players.

RESPONSIBLE MARKETPLACE PRACTICES

To protect the Group's reputation in the marketplace as well as to ensure sustainable value creation for all shareholders, Kencana Petroleum maintains good corporate governance and risk management practices. Strong internal control policies and practices are in place to protect our businesses and stakeholder interests and these are spelt out in our Statement on Corporate Governance, the Statement on Internal Control and the Audit and Risk Management Committee Report. We continue to be watchful of the oil and gas operating environment, particularly volatile oil prices, and have set in place the appropriate measures to mitigate related risks.

The Group's commitment to creating good shareholder value saw Kencana Petroleum being named one of the winners in the Industrial Category at the KPMG Shareholder Value Awards 2010 which ranks public listed companies according to the value they have created for their shareholders.

Going forward, Kencana Petroleum will continue to implement good Corporate Responsibility practices that make a tangible and positive impact on our many stakeholders and the environment that we operate in.

TECHNOLOGY

BEYOND TECHNOLOGY

We pride ourselves by constantly providing innovative and imaginative solutions to chart the course whilst ensuring the Group's continued success.

KENCANA
PETROLEUM

CORPORATE INFORMATION

BOARD OF DIRECTORS

Tan Sri Nik Mohamed bin Nik Yaacob
Independent Non-Executive Chairman

Dato' Mokhzani bin Mahathir
Non-Independent Executive Director
Group Chief Executive Officer

Chong Hin Loon
Non-Independent Executive Director

Yeow Kheng Chew
Non-Independent Executive Director

Ir. Cher Lee Kiat
Non-Independent Executive Director

Azmi bin Ismail
Non-Independent Executive Director

Mohd Adzahar bin Abdul Wahid
Independent Non-Executive Director

Syed Zaid bin Syed Jaffar Albar
Independent Non-Executive Director

Tunku Dato' Mahmood Fawzy bin Tunku Muhiyiddin
Independent Non-Executive Director

AUDIT AND RISK MANAGEMENT COMMITTEE

Mohd Adzahar bin Abdul Wahid
Chairman
Independent Non-Executive Director

Tan Sri Nik Mohamed bin Nik Yaacob
Member
Independent Non-Executive Chairman

Syed Zaid bin Syed Jaffar Albar
Member
Independent Non-Executive Director

Tunku Dato' Mahmood Fawzy bin Tunku Muhiyiddin
Independent Non-Executive Director

COMPANY SECRETARIES

NG HENG HOOI
(MAICSA 7048492)

LEONG POI SAN
(MAICSA 7052268)

REGISTERED OFFICE

Lot 6.08, 6th Floor,
Plaza First Nationwide
No. 161, Jalan Tun H.S. Lee,
50000 Kuala Lumpur, Malaysia
Tel : (6)03-2072 8100
Fax : (6)03-2072 8101

CORPORATE OFFICE
Level 6, Menara Kencana Petroleum
Solaris Dutamas, No. 1
Jalan Dutamas 1
50480 Kuala Lumpur, Malaysia
Tel : (6)03-6209 8000
Fax : (6)03-6209 3800

SHARE REGISTRAR
Symphony Share Registrars Sdn Bhd
Level 6, Symphony House
Pusat Dagangan Dana 1
Jalan PJU 1A/46
47301 Petaling Jaya
Tel : (6)03-7841 8000
Fax : (6)03-7841 8008

AUDITORS
KPMG
Chartered Accountants
Level 10, KPMG Tower, 8, First Avenue
Bandar Utama, 47800 Petaling Jaya
Selangor, Malaysia
Tel : (6)03-7721 3388
Fax : (6)03-7721 3399

PRINCIPAL BANKERS/FINANCIERS
Affin Bank Berhad
Al Rajhi Bank (Malaysia) Berhad
AmBank (M) Berhad
AmInvestment Bank Berhad
Bank Islam Malaysia Berhad
Bank Muamalat Malaysia Berhad
BNP Paribas, Labuan Branch
Deutsche Bank (Malaysia) Berhad
EonCap Islamic Bank Berhad
HSBC Bank Malaysia Berhad
Malayan Banking Berhad
OCBC Al-Amin Bank Berhad
RHB Bank Berhad
United Overseas Bank (Malaysia) Berhad

STOCK EXCHANGE LISTING
Main Market of
BURSA MALAYSIA SECURITIES BERHAD
Stock Code: 5122

CORPORATE STRUCTURE

KENCANA PETROLEUM

- 100% **Kencana HL Sdn Bhd (KHL)**
  EPCIC and Marine Engineering
  - 100% **Kencana Marine Sdn Bhd**
    Offshore Structure, Shipbuilding & Repair
  - 100% **Kencana Metering Sdn Bhd**
    Metering works, process skid systems and pipeline construction
  - 100% **Kencana Infrastructure Sdn Bhd**
    Plant Infrastructure and Maintenance
- 100% **Kencana Bestwide Sdn Bhd (KBW)**
  EPCC and Project Management
  - 30% **Best Wide Engineering (M) Sdn Bhd**
    Design and Engineering Services
  - 30% **Matrix Maintenance Sdn Bhd**
    Valve Testing and Maintenance

100%
Kencana Petroleum Ventures Sdn Bhd (KPV)
Drilling Services and Vessel Charter

100%
Kencana Marine Drilling Sdn Bhd
Offshore Drilling and Drilling related services

100%
Kencana Marine Rig 1 (Labuan) Pte Ltd
Owner of Drilling Rig and related activities

100%
Kencana Nautilus Sdn Bhd
Owner and Operator of Offshore Support Vessels

100%
Kencana Pinewell Sdn Bhd (KPW)
Offshore and Onshore Construction Support Services, Hook-up, Commissioning, Maintenance and De-commissioning Services

100%
Kencana Torsco Sdn Bhd (KTC)
Onshore Steel Fabrication and Construction

100%
Kencana Torsco Overseas Sdn Bhd
Engineering, Fabrication & Construction for International Market

HOOK-UP & COMMISSIONING

BOARD OF DIRECTORS

01 **Tan Sri Nik Mohamed bin Nik Yaacob**
Malaysian,
Independent Non-Executive Chairman

02 **Dato' Mokhzani bin Mahathir**
Malaysian,
Non-Independent Executive Director
Group Chief Executive Officer

03 **Chong Hin Loon**
Malaysian,
Non-Independent Executive Director

04 **Yeow Kheng Chew**
Malaysian,
Non-Independent Executive Director

05 **Ir. Cher Lee Kiat**
Malaysian,
Non-Independent Executive Director

06 **Azmi bin Ismail**
Malaysian,
Non-Independent Executive Director

07 **Mohd Adzahar bin Abdul Wahid**
Malaysian,
Independent Non-Executive Director

08 **Syed Zaid bin Syed Jaffar Albar**
Malaysian,
Independent Non-Executive Director

09 **Tunku Dato' Mahmood Fawzy Tunku Muhiyiddin**
Malaysian,
Independent Non-Executive Director


01


05


06


02


03


04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08


09

PROFILE OF BOARD OF DIRECTORS

TAN SRI NIK MOHAMED BIN NIK YAACOB
Malaysian,
Independent Non-Executive Chairman

Tan Sri Nik Mohamed bin Nik Yaacob, aged 61, was appointed to the Board on 16 September 2008 and presently he is the Independent Non-Executive Chairman of Kencana Petroleum. He graduated with a Bachelor of Engineering from Monash University, and a Master in Business Management from Asian Institute of Management. He also completed an Advanced Management Program at Harvard University. He served as the Group Chief Executive of Sime Darby Berhad from 1993 until his retirement in June 2004 and during this period, he also served on the Boards of the Sime Darby group of companies. Other Malaysian public companies in which he is a director are Scomi Group Berhad, GuocoLand (Malaysia) Berhad and Bolton Berhad.

Tan Sri Nik Mohamed had served as the Chairman of the Advisory Council of National Science Centre and Chairman of the Board of UITM. He represented Malaysia in APEC Business Advisory Council and Asia-Europe Business Forum. He is currently the Executive Director of Yayasan Kepimpinan Perdana (Perdana Leadership Foundation).

He is a member of Audit and Risk Management, Remuneration and Nominating Committees.

DATO' MOKHZANI BIN MAHATHIR
Malaysian,
Non-Independent Executive Director
Group Chief Executive Officer

Dato' Mokhzani bin Mahathir, aged 49, was appointed to the Board on 25 November 2004 and presently he is the Non-Independent Group CEO of Kencana Petroleum. He graduated with a Bachelor of Science in Petroleum Engineering from the University of Tulsa, Oklahoma in 1987. He began his career as a Wellsite Operations Engineer with Sarawak Shell Berhad in 1987. He later joined Tongkah Holdings Berhad in 1989 and was appointed as the Group Managing Director, a post he held till 2001. He was also the Chairman and Group CEO of Pantai Holdings Berhad till 2001. He now sits on the Board of Goldtron Ltd (Singapore), Opcom Holdings Berhad, Maxis Berhad, Sime Darby Auto Performance Sdn Bhd, Kencana Capital Sdn. Bhd. and several private limited companies. He is also the Chairman of Sepang International Circuit Sdn Bhd, a post he has held since 2003.

Dato' Mokhzani currently serves as Chairman of Options Committee and a member of Remuneration Committee.

PROFILE OF BOARD OF DIRECTORS CONTINUED

CHONG HIN LOON
Malaysian,
Non-Independent Executive Director

Chong Hin Loon, aged 62, was appointed to the Board on 15 September 2005 and presently he is the Non-Independent Executive Director of Kencana Petroleum. He is primarily responsible for the operations, project management and yard operations of Kencana Petroleum Group. He holds an MBA in Advanced Strategic Management from Northwestern International University and a Diploma in Shipbuilding Construction from Singapore. He started his career in 1970 with Keppel FELS in Singapore, starting from a low ranking level and moving his way up to a Construction Supervisor before leaving in 1975. He later joined Promet Pte Ltd, Singapore, as a Project Engineer where he was responsible for the construction of oil rigs and vessels, ship repairs and other marine facilities in the oil and gas sector. In 1976, he joined Maroil Shipbuilding & Engineering Pte Ltd as a Project and Construction Manager where he was heavily involved in oil and gas related projects.

After gaining considerable experience abroad, he moved back to Malaysia in 1982 where he started his own contractor line and subsequently established Kencana HL, as subcontractor principally engaged in oil and gas fabrication, process piping and pipeline construction, plant maintenance, skilled manpower supply and project management. He has more than 40 years of experience in the oil and gas industry as well as the shipbuilding and ship repair industry.

He is a member of Options Committee.

YEOW KHENG CHEW
Malaysian,
Non-Independent Executive Director

Yeow Kheng Chew, aged 58, was appointed to the Board on 15 September 2005 and presently he is the Non-Independent Executive Director of Kencana Petroleum. He graduated with a Bachelor of Economics from the Australian National University in 1977. He began his career as a Junior Accountant in Melbourne, Australia. Upon returning to Malaysia, he worked as an Accountant/Financial Controller of Kuan Wah Group of Companies for 6 years. In 1984, he was appointed as the Executive Director of Sinpen Investment Pte Ltd of Singapore. He was appointed as the Executive Director of Tongkah Holdings Berhad in 1987, and later appointed to the Board of Pantai Holdings Berhad in 1997, both posts he held until 2001. He is currently the Director of Kencana Capital Sdn. Bhd. and several private limited companies.

He is a member of Options Committee.

IR. CHER LEE KIAT

Malaysian,
Non-Independent Executive Director

Ir. Cher Lee Kiat, aged 55, was appointed to the Board on 15 September 2005 and presently he is the Non-Independent Executive Director of Kencana Petroleum. He is primarily in charge of Centralised Services Division comprising Engineering, Procurement and Tender. He obtained his Bachelor of Engineering Honours (Chemical) from the University of Malaya. He is a Fellow of the Institution of Engineers Malaysia (FIEM), a Professional Engineer registered with the Board of Engineers, Malaysia, a Corporate Member of the Institution of Chemical Engineers, UK, and a Chartered Engineer of the Council of Engineers, UK.

Ir. Cher started work as a Process Design Engineer in 1979 with Esso Singapore Refinery. In 1983, he joined Protek Engineers, an engineering consultancy company based in Kuala Lumpur, as a Process Engineer. He was promoted to Senior Process Engineer and was also Project Manager for the detailed designs of several offshore platforms for ExxonMobil and Shell. He left Protek in 1989 to join Petrokon Utama, an engineering consultancy company based in Negara Brunei Darussalam, as Team Leader handling projects for Brunei Shell's onshore facilities. In 1992, he was promoted to Operations Manager in charge of the overall running of the company. He returned to Malaysia in 1994 and formed Kencana Bestwide.

AZMI BIN ISMAIL

Malaysian,
Non-Independent Executive Director

Azmi bin Ismail, aged 49, was first appointed to the Board on 3 January 2006 as Independent Non-Executive Director of Kencana Petroleum. Since July 2008, he was appointed as the Non-Independent Executive Director of Kencana Petroleum where he has been entrusted with the leadership role to expand the business of Kencana Petroleum Ventures Sdn Bhd.

He graduated with a Bachelor of Science in Physics from Indiana University, Bloomington, Indiana and a Master of Science in Geophysics, University of Nevada-Reno, Nevada. He has 22 years of vast professional experience in geophysics, particularly in the field of seismic data processing and project management, mostly related to oil and gas projects. He started his career in the oil and gas industry as a Wellsite Operations Engineer in Sarawak Shell Berhad in September 1986. He was later promoted to Operations Engineer, where he supervised rig operations as well as designed well programs.

In 1990, he moved to CGGAP Sdn Bhd as a Deputy Center Manager. CGGAP is a service contractor, providing geophysical services to the exploration and production companies in the oil and gas industry in the Asia Pacific region. In September 1995, he was promoted to the position of Managing Director, CGGAP Sdn Bhd and was responsible for overall management of the company which includes business development, operations, finance and administration.

PROFILE OF BOARD OF DIRECTORS CONTINUED

MOHD ADZAHAR BIN ABDUL WAHID
Malaysian,
Independent Non-Executive Director

Mohd Adzahar bin Abdul Wahid, aged 46, was appointed to the Board on 3 January 2006 and presently he is the Independent Non-Executive Director of Kencana Petroleum. He is a Chartered Accountant by profession and is a Fellow Member of Association of Chartered Certified Accountants (United Kingdom), a Member of Malaysian Institute of Accountants and a Member of Financial Planning Association of Malaysia. He has vast experience in the areas of accounting, auditing, finance and corporate services. He started his career in accounting and auditing in the United Kingdom before serving Bumiputra Merchant Bankers Berhad (now known as Alliance Investment Bank Berhad) for 6 years. He last served there as Corporate Banking Manager. He subsequently served Naluri Berhad as Corporate Finance Manager for one year.

He joined PMCare Sdn Bhd in 1995 as the General Manager of Finance and was appointed as the Executive Director in April 1996. As the Executive Director, he is responsible for the overall management of the company which includes strategic planning, business development, finance and operations. Presently, he is also a Director of HMO Marketing Sdn Bhd, Prima Medicare Sdn Bhd, Nusantara Indah (M) Sdn Bhd, Sutra Budi Sdn Bhd and Navina Sdn Bhd.

He is the Chairman of Audit and Risk Management Commitee, and a member of Remuneration and Nominating Committees.

SYED ZAID BIN SYED JAFFAR ALBAR
Malaysian,
Independent Non-Executive Director

Syed Zaid bin Syed Jaffar Albar, aged 56, was appointed to the Board on 16 September 2008 and presently he is the Independent Non- Executive Director of Kencana Petroleum. He obtained his B.A. (Hons) Law from the United Kingdom and is qualified as a Barrister-at-Law, Lincoln's Inn, U.K. He was called to the Malaysian Bar as an advocate and solicitor of the High Court of Malaya in 1980 and has been active in legal practices ever since. Presently, Syed Zaid is the managing partner of an established law firm in Kuala Lumpur. Apart from that, he holds other directorships in public companies including Malaysia Building Societies Berhad, Malaysian Pacific Industries Berhad and Narra Industries Berhad.

He serves as the Chairman of Remuneration and Nominating Committees and a member of Audit and Risk Management Committee.

YM TUNKU DATO' MAHMOOD FAWZY BIN TUNKU MUHIYIDDIN
Malaysian,
Independent Non-Executive Director

Tunku Dato' Mahmood Fawzy bin Tunku Muhiyiddin, aged 52, was appointed to the Board on 29 September 2010 and presently he is the Independent Non-Executive Director of Kencana Petroleum. He holds a Bachelor of Arts (Hons) in Business Studies from the Polytechnic of Central London, U.K. and a Master in Business Administration (MBA) from Warwick University, U.K. He is also a member of the Malaysian Institute of Management (MIM).

Tunku Dato' Mahmood Fawzy has accumulated more than 20 years of international work experience in companies spanning various industries, from banking, information technology and investment holdings to shipping, and oil and gas. He joined Khazanah Nasional Berhad as a Director, Investments in May 2007 and was later appointed Executive Director, Investments until his retirement on 9 May 2010. He also sits on the board of Pos Malaysia Berhad and Telekom Malaysia Berhad.

He is a member of Audit and Risk Management Committee.

General information in relation to the Board of Directors

- None of the Directors have any family relationship with any other director and/or substantial shareholder of the Company.
- None of the Directors have any conflict of interest with the Company.
- None of the Directors have had any convictions for offences within the past ten (10) years.

DRILLING

STATEMENT ON CORPORATE GOVERNANCE

THE BOARD OF DIRECTORS ("THE BOARD") OF KENCANA PETROLEUM BERHAD ("KENCANA PETROLEUM") CONFIRMS THAT THROUGHOUT THE FINANCIAL YEAR ENDED 31 JULY 2010, 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").

The Board is determined and committed towards ensuring maximum shareholders' value and enhancing investors' interest in compliance with the Best Practices of the Malaysian Code on Corporate Governance ("the Code"). In doing so, the Board is convinced that with proper and good governance will undoubtedly contribute towards the betterment of the Group's overall performance.

The Group whilst experiencing good business growth, realises that it is essential that the Board practises good governance particularly in promoting the non-prescriptive nature of the Code as it allows for a more flexible response by the Group to raise standards in corporate governance, as opposed to the more rigid response required by statute and regulation. The non-prescriptive model requires actual disclosure of corporate governance practice.

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 consist of nine (9) directors, with one (1) independent non-executive Chairman, five (5) non-independent executive directors and three (3) 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.

In adherence to the requirements of the Code, the roles of the Chairman and the Group CEO are separated. This is to ensure clear division of responsibilities between the non-executive and the executive branch of the Board.

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.

Board Meetings and Supply of Information

During the financial year ended 31 July 2010, the Board met four (4) 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 were also deliberated.

Details of attendance of each Director who was in office during the financial year ended 31 July 2010 are as follows:

Directors	No. of attendance and meetings
Tan Sri Nik Mohamed bin Nik Yaacob	4/4
Dato' Mokhzani bin Mahathir	4/4
Chong Hin Loon	3/4
Yeow Cheng Khew	4/4
Ir. Cher Lee Kiat	4/4
Azmi bin Ismail	4/4
Mohd Adzahar bin Abdul Wahid	4/4
Syed Zaid bin Syed Jaffar Albar	3/4

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 ("Bursa Securities").

Board Committees

The Board delegates certain responsibilities to the Board Committees, namely Audit and Risk Management Committee, Nominating Committee, Remuneration Committee, Options Committee and Executive Committee in order to enhance business efficacy and operational efficiency.

The terms of reference of the Board Committees during the financial year ended 31 July 2010 are set out on pages 61 to 68 of this Annual Report.

Appointment And Retirement Of Directors

The Nominating Committee has been tasked with assisting the Board to evaluate and recommend candidates for appointments to the Board.

STATEMENT ON CORPORATE GOVERNANCE CONTINUED

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 6th Annual General Meeting, Yeow Kheng Chew, Ir. Cher Lee Kiat and Azmi bin Ismail are due to retire pursuant to Article 94 of the Articles. Being eligible, they have offered themselves for re-election. Tunku Dato' Mahmood Fawzy Bin Tunku Muhiyiddin is due to retire pursuant to Article 100 of the Articles. Being eligible, he has offered himself for 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 of the latest developments in the industry and to enhance their skills and knowledge.

The Directors individually and collectively have attended the following trainings/seminars:-

1. Understanding FRS101, FRS139, FRS132, FRS7 and IFRIC15 – The Users' Perspective
2. Handling Crisis – Effective Communication
3. Competency as the Backbone of Transformation

The Company Secretary circulates guidelines on statutory and regulatory requirements periodically for the Board's reference which include briefing updates to the Board every quarter. The Directors will continue to undergo other relevant training programmes to further enhance their skills and knowledge, as appropriate.

Directors' Remuneration

The Directors' remuneration is linked to experience, scope of responsibility, seniority, performance and industry information.

The Remuneration Committee has been delegated the responsibility to review and recommend to the Board on remuneration packages and other terms of employment of the Executive Directors.

The Board as a whole determines the remuneration of Non-Executive Directors and each individual Director abstains from the Board's deliberations in respect of his own remuneration.

Details of Directors' remuneration for the financial year ended 31 July 2010 are as follows:

	Executive Directors RM	Non-Executive Directors RM
Salary	3,499,000	-
Fees	-	180,000
Allowances	1,190,000	100,000
*Other Emoluments	963,754	-
Total	5,652,754	280,000

* *Other emoluments include bonuses and statutory contributions*

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

Range of Remuneration	Number of Directors
RM50,001 - RM100,000	3
RM500,001 – RM550,000	1
RM550,001 – RM600,000	1
RM1,400,001 – RM1,450,000	1
RM1,550,001 – RM1,600,000	2

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 ("the Act"). Efforts are made to ensure that the financial statements comply with the provisions of the Act 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 Securities.

Internal Control

The Board firmly believes in maintaining a sound system of internal control with a view to safeguard shareholders' investment and the Group's assets. For this purpose the Company has in place a system of internal control to facilitate the management of risks within the Group. This is further elaborated in the Statement on Internal Control set out in page 76 of this Annual Report.

Relationship With Auditors

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 and Risk Management 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 Group CEO in the AGM presents to the shareholders, the Company's operations in the financial year and outlines future prospects of the Group.

Dialogue Between The Company And Investors

The Company 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 discussions with analysts and institutional shareholders regularly.

Announcements, annual reports, quarterly financial results and other relevant information are accessible via the Group's website at www.kencanapetroleum.com.my. Any persons wishing to receive email alerts or make any request for documents are able to do so via email to investor.relations@kencanapetroleum.com.my.

In addition, all announcements made to Bursa Malaysia are published at www.kencanapetroleum.com.my after the same is released on Bursa Malaysia's website. Also listed on the company's website is the name of the person designated by the Company to receive queries from the public together with his email address and contact details.

Audit and Risk Management Committee ("ARMC")

The Board has delegated the ARMC to oversee assessment of processes relating to the Group's risk and controls. The ARMC determined the management has implemented policies ensuring that the Group's risk are identified and evaluated and that controls in place are adequate and functioning properly to address the risks. The ARMC consist of four (4) Independent Non-Executive Directors. The ARMC report set out its terms of reference, membership and summary of activities on pages 69 to 73 of this Annual Report.

Nominating Committee ("NC")

Composition And Size

The NC shall be appointed by the Board from amongst the Directors of Kencana Petroleum and shall consist of not less than two (2) members, comprising wholly of non-executive Directors and a majority of whom are independent. In the event of any vacancy with the result that the number of members is reduced to below three, the vacancy must be filled within 3 months.

STATEMENT ON CORPORATE GOVERNANCE CONTINUED

The performance assessment of the NC should be carried out by the Board, benchmarking the activities it carried out against its terms of reference as approved by the Board. Alternatively, the assessment of the NC's performance can be carried out by individual members of the NC on a peer assessment basis, with the results forwarded to the Board for consideration, as appropriate.

Chairman
The Chairman of the NC shall be appointed by the Board.

Secretary
The Company Secretary shall be the Secretary of the NC and shall be responsible, in conjunction with the Chairman, for drawing up the agenda and circulating it together with all relevant documents to all members of the NC prior to the meeting.

The Secretary shall also be responsible for keeping the minutes of meetings of the NC and circulating them to the NC Members.

Meetings
The NC shall meet at least once a year to carry out the activities as enshrined in its terms of reference, or more frequently as the need arises, at the discretion of the Chairman of the NC. The quorum for a meeting shall be two (2) members.

All or any members of the NC may participate in a meeting of the NC by means of a teleconference or any communication equipment which allows all persons participating in the meeting to hear each other. A person so participating shall be deemed to be present in person at the meeting and shall be entitled to vote or be counted in a quorum accordingly.

Any decision made at meetings shall be by a simple majority. In the event issues requiring the NC's decision arise between meetings, such issues shall be resolved through circular resolution subsequent to discussions being held amongst the NC members, either via teleconference, videoconference, email, etc. in order for the NC as a whole to be apprised on such matters and obtain their view points before arriving at a decision. Such circular resolution in writing shall be valid and effectual if it is signed or approved by letter, telex, facsimile or telegram by all members of the NC and such discussions, including any concerns raised and the rationale for the decisions so made in the resolution shall be tabled at the immediate NC meeting for formal record keeping.

The NC shall be provided with sufficient resources to undertake its duties. It shall have access to the services of the company secretary on all NC matters, including the Company Secretary's assistance for the Chairman in planning the NC's work, drawing up meeting agendas, maintenance of minutes and collection and distribution of information and provision of any necessary practical support.

The meetings of the NC shall be transparent, with all proceeding recorded and actions documented. The Board shall be kept aware of the NC's activities by way of the NC minutes being circulated together with the Board meeting papers.

Performance Evaluation
Evaluation of the effectiveness of the Board as a whole, including Board Committees and the contribution of each individual Director shall be carried out by the NC annually and properly documented. The performance evaluation process established shall include clear evaluation criteria and communicated to each individual Director. All reports shall be gathered and assessed by the NC for the Board's review and approval.

Authority
The NC is authorised by the Board to discharge its duties and responsibilities set out below. The NC shall not have the power to implement its recommendations but shall be obliged to report its recommendations to the full Board for the Board's consideration. In discharging its duties and responsibilities, the NC shall have access to all required information and assistance from personnel within the Group. The NC 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 necessary.

Duties and Responsibilities

The duties and responsibilities of the NC shall be:

(a) to recommend to the Board, candidates for all Directorships to be filled by the shareholders or the Board taking into consideration the candidates':
- skills, knowledge, expertise and experience;
- professionalism;
- integrity; and
- in the case of candidate for the position of Independent Non-Executive Director, the NC shall also evaluate the candidate's ability to discharge such responsibilities/functions as expected from Independent Non-Executive Directors.

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

(c) to recommend to the Board, Directors to fill the seats on Board Committees;

(d) to assist the Board, in the annual review of 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 ensure that a new Director to the Board is provided with training which encompasses familiarising 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;

(f) to consider the training needs of the Directors and recommend to the Board, training programmes;

(g) to assess the desirable balance in board membership, considering the structure and excessive number of directorships;

(h) to assess desirable numbers of Independent Directors;

(i) to consider the possible representation of interest groups;

(j) to recommend the individuals for nomination as members of the Board by assessing the desirability of renewing existing directorships;

(k) to facilitate the annual Board effectiveness assessment, through the Board and Directors' self-evaluation forms; and

(l) to periodically report to the Board on succession planning of the members of the Board, including the Group CEO and senior management of the Group. The Board shall work with the NC to evaluate potential successors.

Remuneration Committee ("RC")

Composition and Size

The RC shall be appointed by the Board from amongst the Directors of Kencana Petroleum 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 RC shall be appointed by the Board and comprise Board members who will not benefit personally from their decisions and who will give due regard to the interest of shareholders and other stakeholders.

Chairman

The Chairman of the RC shall be appointed by the Board.

Secretary

The Company Secretary shall be the Secretary of the RC and shall be responsible, in conjunction with the Chairman, for drawing up the agenda and circulating it together with all relevant documents to all members of the RC prior to the meeting.

The Secretary shall also be responsible for keeping the minutes of meetings of the RC and circulating them to the RC Members.

STATEMENT ON CORPORATE GOVERNANCE CONTINUED

Meetings
The RC shall meet at least once a year to discharge its responsibilities as spelt out in the terms of reference. More frequent meetings may be called as the need arises, especially when there are major changes to Executive Directors and corporate structure within the Group. The quorum for a meeting shall be two (2) members and any decision shall be by a simple majority. Any decision made at meetings shall be by a simple majority.

All or any members of the RC may participate in a meeting of the RC by means of a teleconference or any communication equipment which allows all persons participating in the meeting to hear each other. A person so participating shall be deemed to be present in person at the meeting and shall be entitled to vote or be counted in a quorum accordingly.

In the event issues requiring the RC's decision arise between meetings, such issues shall be resolved through circular resolution subsequent to discussions being held amongst the RC members, either via teleconference, video conference, email, etc. in order for the RC as a whole to be apprised on such matters and obtain their view points before arriving at a decision. Such circular resolution in writing shall be valid and effectual if it is signed or approved by letter, telex, facsimile or telegram by all members of the RC and such discussions, including any concerns raised and the rationale for the decisions so made in the resolution shall be tabled at the immediate RC meeting for formal record keeping.

The RC shall be provided with sufficient resources to undertake its duties. It shall have access to the services of the Company Secretary on all RC matters including, assisting the Chairman in planning the RC's work, drawing up meeting agendas, maintenance of minutes and collection and distribution of information and provision of any necessary practical support.

The meetings of the RC shall be transparent, with all proceeding recorded and actions documented. The Board shall be kept aware of the RC's activities by way of the RC minutes being circulated together with the Board meeting papers.

Authority
The RC is authorised by the Board to discharge its duties and responsibilities set out below. The RC shall not have the power to implement its recommendations but shall be obliged to report its recommendations to the full Board for the Board's consideration. In discharging its duties and responsibilities, the RC shall have access to all required information and assistance from personnel within the Company. The RC is further authorized 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 RC shall be:
- to develop for the Board's approval, the Group's remuneration policy for Executive Directors; and
- to recommend to the Board, the remuneration packages and terms of employment of Executive Directors.

The Group shall ensure one of the RC's key tasks is to develop and agree with the Board a framework on the fee structure and level of remuneration for Executive Directors of the Board (including who the Board member and senior management are). The Board shall determine who its senior management are and may include the Chief Operating Officer, Directors of subsidiaries within the Group, etc., as appropriate, in the opinion of the Board.

The Group shall ensure that its remuneration framework is robust and effective enough in the following areas:
- attracting and retaining key personnel of requisite quality that increases productivity and profitability in the long run;
- motivating and creating incentives for Directors to perform at their best; and
- focusing attention on the achievement of desired goals and objectives.

A remuneration framework shall be designed in such a way that it supports the strategies and long term vision of the Group as well as provides adequate motivational incentive for Directors to pursue the long term growth and success of the Group.

Disclosure of Directors' remuneration
The Group shall disclose the remuneration of Directors for the financial year in its Annual Report in the following manner:

- the aggregate remuneration of Directors with categorisation into appropriate components (e.g. Directors' fees, salaries, percentages, bonuses, commission, compensation for loss of office, benefits in kind based on an estimated money value) distinguishing between executive and non-executive Directors; and
- the number of Directors whose remuneration falls in each successive band of RM50,000 distinguishing between executive and non-executive Directors.

Options Committee ("OC")

Composition and Size
The OC shall be appointed by the Board from amongst the Directors of Kencana Petroleum and shall consist of not less than three (3) members. 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 OC shall be appointed by the Board and comprise Board members who will not benefit personally from their decisions and who will give due regard to the interest of shareholders and other stakeholders.

The Board also shall have power at any time, and from time to time to rescind the appointment of any person in the OC and appoint new members to the OC as it shall deem fit.

Chairman
The Chairman of the OC shall be appointed by the Board.

Secretary
The Company Secretary shall be the Secretary of the OC and shall be responsible, in conjunction with the Chairman, for drawing up the agenda and circulating it together with all relevant documents to all members of the OC prior to the meeting.

The Secretary shall also be responsible for keeping the minutes of meetings of the OC and circulating them to the OC Members.

Meetings
The OC shall meet at least once a year to discharge its responsibilities as spelt out in the terms of reference. More frequent meetings may be called as the need arises, especially when there are major changes to Executive Directors and corporate structure within the Group. The quorum for a meeting shall be two (2) members and any decision shall be by a simple majority. Any decision made at meetings shall be by a simple majority.

All or any members of the OC may participate in a meeting of the OC by means of a teleconference or any communication equipment which allows all persons participating in the meeting to hear each other. A person so participating shall be deemed to be present in person at the meeting and shall be entitled to vote or be counted in a quorum accordingly.

In the event issues requiring the OC's decision arise between meetings, such issues shall be resolved through circular resolution subsequent to discussions being held amongst the OC members, either via teleconference, videoconference, email, etc. in order for the OC as a whole to be apprised on such matters and obtain their view points before arriving at a decision. Such circular resolution in writing shall be valid and effectual if it is signed or approved by letter, telex, facsimile or telegram by all members of the OC and such discussions, including any concerns raised and the rationale for the decisions so made in the resolution shall be tabled at the immediate OC meeting for formal record keeping.

The OC shall be provided with sufficient resources to undertake its duties. It shall have access to the services of the Company Secretary on all OC matters including, assisting the Chairman in planning the OC's work, drawing up meeting agendas, maintenance of minutes and collection and distribution of information and provision of any necessary practical support.

STATEMENT ON CORPORATE GOVERNANCE CONTINUED

The meetings of the OC shall be transparent, with all proceeding recorded and actions documented. The Board shall be kept aware of the OC's activities by way of the OC minutes being circulated together with the Board meeting papers.

Authority

The OC is authorised by the Board to discharge its duties and responsibilities set out below. The OC 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 OC shall have access to all required information and assistance from personnel within the Company. The OC is further authorized by the Board to obtain external professional advice and to secure the attendance of representatives of such external advisers if it considers this necessary. The OC is granted the authority to administer the ESOS at its discretion, with such powers and duties are as conferred upon.

Duties and responsibilities

The duties and responsibilities of the OC shall be:

(a) to implement and administer the Scheme in such manner as it shall in its discretion deem fit in accordance with the ESOS Bye-Laws;

(b) to decide on the terms and conditions of the Selling Flexibility (as defined under the ESOS Bye-Laws), where applicable and to implement the same, as the OC deems fit;

(c) to determine on whether to accept, reject or suspend any exercise by the grantee of his option and the duration under such circumstances as set out in the ESOS Bye-Laws;

(d) to enter into any transactions, agreements, deeds, documents or arrangement, and make rules, regulations or impose terms and conditions or delegate part of its power relating to the Scheme subject to the provisions of the ESOS Bye-Laws;

(e) to suspend and/or cancel the rights of any Grantee who is being subjected to disciplinary proceedings to exercise his Option pending the outcome of such disciplinary proceeding and in additional may impose such terms and conditions as it shall deem appropriate in its discretion, on the rights of exercise of the Option having regard to the nature of the charges made or brought against such Grantee;

(f) to recommend to the Board, where it deems necessary, an extension of the Scheme up to a further period of 5 years;

(g) to ensure that no offer shall be made to any Executive Director unless such an offer and the respective allotment of shares have previously been approved by the shareholders of Kencana Petroleum in a general meeting;

(h) to decide on the number of shares to be offered to Eligible Participant, the subscription price for the shares and such other terms in relation to the offer and not to make further additional offers regardless of the amount of the Available Balance;

(i) to make offers to Eligible Participant of Kencana Petroleum and its subsidiaries in accordance with the ESOS Bye-Laws;

(j) to determine the procedure for the exercise of the Options by Grantees as well as the maximum limit (if necessary) exercisable by the Grantees for any particular year;

(k) to recommend to the Board, where it deems necessary, any amendments modification, addition, or deletion of the Bye-Laws;

(l) to take all other actions within the jurisdiction of the OC pursuant to the ESOS Bye-Laws, for the necessary and effective implementation and administration of the Scheme;

(m) to determine the number of Options to be offered to the Eligible Participant under the scheme depending on the seniority and performance of the Eligible Participant and his/ her length of service and contribution to the Group and subject the Maximum Allowable Allotment set out in the Bye-Laws of the Scheme;

(n) to consider cases in the event of cessation of employment of a Grantee by reason of retirement, ill-health, injury, disability, redundancy, retrenchment, transfer of any other circumstances during the Option Period, on a cased basis may allow the Grantee to exercise his/ her Option provided such Option shall remain exercisable during the Option Period;

(o) to add, amend and/ or delete the Bye-Laws of the Scheme by resolution from time to time; and

(p) to determine all questions of policy and expediency that may arise in the administration of such the ESOS and generally exercise such powers and perform such acts as are deemed necessary or expedient to promote the best interest of the Group.

Executive Committee ("EXCO")

Composition and Size

The EXCO shall comprise of all the Executive Directors of Kencana Petroleum. Depending on agenda of each meeting, other senior management executives from the Company and Group may be invited to be present in the said meeting.
The EXCO shall be appointed by the Board and comprise Board members who will not benefit personally from their decisions and who will give due regard to the interest of shareholders and other stakeholders.

Chairman

The Chairman of the EXCO shall be appointed by the Board.

Secretary

The Group Head of Legal Affairs shall be the Secretary of the EXCO and shall be responsible, in conjunction with the Chairman, for drawing up the agenda and circulating it 7 days prior to each meeting whereas the meeting folder shall reach the members at least 3 days prior to the meeting.

The Secretary shall also be responsible for keeping the minutes of meetings of the EXCO and circulating them to the EXCO Members.

Meetings

The EXCO shall meet as often as necessary to consider, resolve and manage the important strategic and business issues facing the Group. The quorum for a meeting shall be three (3) members and any decision shall be by a simple majority.

All or any members of the EXCO may participate in a meeting of the EXCO by means of a teleconference or any communication equipment which allows all persons participating in the meeting to hear each other. A person so participating shall be deemed to be present in person at the meeting and shall be entitled to vote or be counted in a quorum accordingly.

In the event issues requiring the EXCO's decision arise between meetings, such issues shall be resolved through circular resolution subsequent to discussions being held amongst the EXCO members, either via teleconference, videoconference, email, etc. in order for the EXCO as a whole to be apprised on such matters and obtain their view points before arriving at a decision. Such circular resolution in writing shall be valid and effectual if it is signed or approved by letter, telex, facsimile or telegram by all members of the EXCO and such discussions, including any concerns raised and the rationale for the decisions so made in the resolution shall be tabled at the immediate EXCO meeting for formal record keeping.

The EXCO shall be provided with sufficient resources to undertake its duties. It shall have access to the services of the Secretary on all EXCO matters including, assisting the Chairman in planning the EXCO's work, drawing up meeting agendas, maintenance of minutes and collection and distribution of information and provision of any necessary practical support.

The meetings of the EXCO shall be transparent, with all proceeding recorded and actions documented. The Board shall be kept aware of the EXCO's activities by way of the EXCO minutes being circulated together with the Board meeting papers.

STATEMENT ON CORPORATE GOVERNANCE CONTINUED

Authority
The EXCO is authorised by the Board to discharge its duties and responsibilities set out below. The EXCO shall not have the power to implement its recommendations but shall be obliged to report its recommendations to the full Board for the Board's consideration. In discharging its duties and responsibilities, the EXCO shall have access to all required information and assistance from personnel within the Company. The EXCO is further authorized 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 EXCO shall be:

(a) setting the capital and investment plan, financial budget, the business target of the Group and the plans or reports as may be required by the Board from time to time and to ensure the implementation after approval by the Board;
(b) regularly reviewing the operational performance and strategic direction of the Group's businesses;
(c) identifying and executing new business development opportunities besides the existing business;
(d) implementing and compliance with the laws, regulations, listing rules, Bye-Laws, internal regulations applicable to the Group;
(e) regularly reviewing the targets and strategies of the Group considering the responsibilities of the Group towards the shareholders, customers, employees and other stakeholders;
(f) setting the execution plan for achieving specific objectives after the approval by the Board;
(g) utilising the advanced management philosophy, continuing to improve the operational management, suggesting effective management systems;
(h) reviewing the organisational structure of the Group regularly and proposing recommendations for appropriate change;
(i) changes relating to the Group's capital structure and significant changes to the Group's management and control structure;
(j) all matters likely by reason of public interest to be of a sensitive nature or affect the image or reputation of the proper governance of the Group, ethical conduct of business, recruitment, development and fair treatment of employees, community affairs, environmental matters, health and safety matters;
(k) all matters representing a major change of policy or involvement of a material nature in a new area of business;
(l) the principles of all internal control processes, including risk analysis and management processes, authority levels and treasury policies; and
(m) the provision of sufficient information to enable the Board to monitor performance.

AUDIT AND RISK MANAGEMENT COMMITTEE REPORT

THE BOARD OF KENCANA PETROLEUM IS PLEASED TO PRESENT THE AUDIT AND RISK MANAGEMENT REPORT FOR THE FINANCIAL YEAR ENDED 31 JULY 2010.

TERMS OF REFERENCE

Composition and Size

The Audit and Risk Management Committee ("ARMC") shall be appointed from amongst the Board and shall comprise at least three (3) members, a majority of whom are Independent Directors. All members of the ARMC shall be non-executive Directors.

The ARMC should be appointed by the Board based on recommendation from the Nominating Committee. In the absence of Nominating Committee, the Board appoints the ARMC members amongst its numbers.

The ARMC members must have the required skills to engage with Management and auditors and be prepared to ask key and probing questions about Kencana Petroleum and the Group financial and operational risks, compliance with approved financial reporting standards and other relevant regulatory requirements.

All members should be financially literate with at least one (1) member of the ARMC:

- a member of the Malaysian Institute of Accountants ("MIA"); or
- if he is not a member of the MIA, he must have at least three (3) years' working experience and:
  - i. he must have passed the examination specified in Part 1 of the First Schedule of the Accountants Act 1967; or
  - ii. he must be a member of one of the associations of accounts specified in Part II of the First Schedule of the Accountants Act 1967; or
- fulfils such other requirements as prescribed or approved by Bursa Securities.

No alternate Director of the Board shall be appointed a member of ARMC.

In the event of any vacancy with the result that the number of members is reduced to below three, the vacancy must be filled within 3 months.

Chairman

The members of the ARMC shall elect a Chairman from among themselves who shall be an Independent Non-Executive Director. A strong chair demonstrating depth of skills and capabilities is a key element for a successful ARMC and hence its selection should be undertaken with due care and consideration.

The Chairman should assume, amongst others, the following responsibilities:

- planning and conducting meetings;
- overseeing reporting to Board;
- encouraging open discussion during meetings; and
- developing and maintaining an active on-going dialogue with senior management and both the internal and external auditors.

Secretary

The Company Secretary shall be the Secretary of the ARMC and shall be responsible, in conjunction with the Chairman, for drawing up the agenda and circulating it together with all relevant documents to all members of the ARMC prior to the meeting. The Secretary shall also be responsible for keeping the minutes of meetings of the ARMC and circulating them to the ARMC Members.

Meetings

The ARMC shall meet at least four (4) times a year, with due notice of issues to be discussed, and shall record its conclusion in discharging its duties and responsibilities. Additional meetings may be called at any time if so requested by any ARMC member, Management, internal auditor or external auditor. The quorum for a meeting shall be two (2) members, provided that the majority of members present at the meeting shall be independent.

All or any members of the ARMC may participate in a meeting of the ARMC by means of a teleconference or any communication equipment which allows all persons participating in the meeting to hear each other. A person so participating shall be deemed to be present in person at the meeting and shall be entitled to vote or be counted in a quorum accordingly.

AUDIT AND RISK MANAGEMENT COMMITTEE REPORT CONTINUED

Any decision made at meetings shall be by a simple majority. In the event issues requiring the ARMC's decision arise between meetings, such issues shall be resolved through circular resolution subsequent to discussions being held amongst the ARMC members, either via teleconference, videoconference, email, etc. in order for the ARMC as a whole to be apprised on such matters and obtain their view points before arriving at a decision. Such circular resolution in writing shall be valid and effectual if it is signed or approved by letter, telex, facsimile or telegram by all members of the ARMC and such discussions, including any concerns raised and the rationale for the decisions so made in the resolution shall be tabled at the immediate ARMC meeting for formal record keeping.

The external auditors have the right to appear at any meeting of the ARMC and shall appear before the ARMC when required to do so by the ARMC. The external auditors may also request a meeting if they consider it necessary. Other Directors and employees shall attend any particular ARMC meeting only at the ARMC's invitation, specific to the relevant meeting.

Considering the complexity of the issues to be discussed, it is imperative that ARMC members be provided with the meeting agenda and relevant papers at least a week in advance of each meeting. This will allow the ARMC members to give full consideration to the issues and, where necessary, obtain supplementary facts before the meeting.

Rights

In carrying out its duties and responsibilities, the ARMC shall:

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

(b) have the resources which it needs to perform its duties;

(c) have full and unrestricted access to any information which it requires in the course of performing its duties;

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

(e) have direct communication channels with the external auditors and internal auditors;

(f) be able to obtain independent professional or other advice in the performance of its duties at the cost of the Company;

(g) be able to invite outsiders with relevant experience to attend its meetings if necessary; and

(h) be able to convene meetings with external auditors, the internal auditors or both, excluding the attendance of other Directors and employee of the Group, whenever deemed necessary but at least twice a year with the external auditors.

Duties and responsibilities

The duties and responsibilities of the ARMC shall be:

(a) to review the quarterly and annual financial statements, prior to submission to the Board, focusing particularly on:
- changes in or implementation of accounting policies and practices;
- major judgmental areas;
- significant and unusual events;
- the going concern assumption;
- compliance with approved financial reporting standards and other legal requirements; and
- compliance with Bursa Securities' requirements;

(b) to review with the external auditors:
- their audit plan;
- evaluation of the system of internal controls and management information systems;
- problems and reservation arising from their audits; and
- audit report;

(c) to review any management letter sent by the external auditors to the Group and 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 perform the following in relation to the internal audit function:
- review the adequacy of the scope, functions, competency and resources of the internal audit function, and that it has the necessary authority to carry out its work;

- review the internal audit programme and results of the internal audit process and, where necessary, ensure that appropriate actions are taken on the recommendations of the internal audit function;
- review any appraisal or assessment of the performance of members of the internal audit function;
- approve any appointment or termination of senior staff members of the internal audit function; and
- take cognizance of resignations of internal audit staff members and provide the resigning staff member an opportunity to submit his reasons for resigning;

(f) to consider the nomination/ appointment of external auditors, co-source internal audit function (if any), 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;
(j) to report to the Board its activities, significant results and findings;
(k) to ensure timely submission of financial statement by Management;
(l) to assess whether financial statements present a true and fair view of the Group's financial position and performance and comply with regulatory requirements;
(m) to seek continuing professional education to keep abreast of developments not only in the area of financial reporting but also in regulatory compliance, technology, business risk and the implications of significant changes that may affect the Group; and
(n) to discuss with the external auditor before the audit commences, the nature and scope of the audit, and ensure co-ordination where more than one audit firm is involved.

During the risk assessment process, the following shall be considered:

- the principal risks and the process of identification, evaluation and management of the principal risks;
- the effectiveness of internal control systems deployed by management to address those risks;
- corrective measures undertaken to remedy failings and/or weaknesses;
- further requirement for extensive monitoring;
- ability of the Group to meet changes in significant risks and respond to constant changes to the business and/or external environment;
- scope and quality of management's ongoing monitoring of risks and the work of internal audit and other assurance service providers on the robustness of the risk management process;
- communication and monitoring of risk assessment results to the Board; and
- actual and potential impact of any failing/ weakness, particularly those related to financial performance/ conditions affecting the Group.

The ARMC's role in the oversight of risk management and review of the adequacy and integrity of the Group's control environment includes:

- upholding a culture that emphasizes integrity;
- embedding a holistic risk management framework in all aspects of the Group's activities;
- applying the Board's acceptable "risk appetite", i.e. the extent of risk the Board is prepared to accept in achieving the Company's objective;
- evaluating the principal risks and ensuring these risks are appropriately communicated to Management;
- establishing in general, the risk management and control policies for the business;
- conceiving and adopting a befitting scheme of delegation of Board responsibilities to committees;
- ensuring timely and regular receipt of reports from Management of principal risks and that appropriate follow-up measures are implemented on timely basis; and
- adopting risk management as part of the Board's own decision-making culture.

AUDIT AND RISK MANAGEMENT COMMITTEE REPORT CONTINUED

The ARMC shall remain focused on the Group's principal risks and ensure the implementation of appropriate systems to identify and manage these risks that threaten the business. Whilst these risks may be strategic in nature, the ARMC shall ensure appropriate controls, encompassing those that are operational and compliance in nature, are in place and working as intended.

Care shall be exercised in the implementation of control measures. Unless it is deemed necessary, the implementation should not require Board's meddling but rather the Board shall be the navigator while the implementation process is left to Management.

Internal Audit Function

The Group has its own in-house Internal Audit and Risk Management function besides partially co-sourced with an independent internal audit service provider. The internal audit review the Group's operations of which encompasses an independent assessment of the Group's compliance with its internal controls and shall make recommendations for improvements. The areas of audit coverage were based on areas of high risk that was independently assessed.

The internal audit function provides an objective independent assurance of the Group's internal control system and 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 includes, but not limited to:

(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 ARMC; 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.

The ARMC obtains reasonable assurance on the effectiveness of the system of internal controls via the internal audit function and Group Risk Management Steering Committee, which shall be responsible for the regular review and/or appraisal of the effectiveness of the risk management, internal control, and governance processes within the Company and the Group.

The cost incurred for the internal audit function of the Group in respect of the financial year ended 31 July 2010 was approximately RM182,000.

Membership And Attendance At Meeting

The current composition of the ARMC is as follows:-

Name of ARMC Members

Mohd Adzahar bin Abdul Wahid
Chairman, Independent Non-Executive Director

Tan Sri Nik Mohamed bin Nik Yaacob
Member, Independent Non-Executive Chairman

Syed Zaid bin Syed Jaffar Albar
Member, Independent Non-Executive Director

Tunku Dato' Mahmood Fawzy Tunku Muhiyiddin
Member, Independent Non-Executive Director
(Appointed on 29 September 2010)

There were six (6) meetings held during the financial year 31 July 2010 and the details of attendance are as follows:

Name of ARMC Members	No. of attendance and meetings
Mohd Adzahar bin Abdul Wahid	5/6
Tan Sri Nik Mohamed bin Nik Yaacob	6/6
Syed Zaid bin Syed Jaffar Albar	6/6

Summary Of Activities Of The ARMC

The ARMC carried out its duties as set out in the Terms of Reference. Other main activities carried out by the ARMC during the financial year included the following:

1. Reviewed and recommended to the Board the re-appointment of the external auditors;
2. Reviewed and discussed with the external auditors, the nature and scope of their audit;
3. Conducted meetings with the external auditors and internal auditors without presence of the executive Board member and management;
4. Reviewed audit plan and scope of work for the year for the Group and the Company;
5. Reviewed the audit reports which incorporated audit findings, recommendations and management response for the Group and the Company;
6. Reviewed the external auditor's management letter and management's response;
7. Reviewed the quarterly and annual financial reports of the Group and the Company prior to submission to the Board for consideration and approval;
8. Reviewed and verified that the allocation of options pursuant to the Company's Employees' Share Option Scheme is in compliance with the criteria for allocation of options as disclosed to employees of the Company; and
9. Reviewed and verified the related party transactions.

ADDITIONAL COMPLIANCE INFORMATION

1. STATUS OF UTILISATION OF PROCEEDS RAISED FROM CORPORATE PROPOSALS

During the financial year ended 31 July 2010, the Company undertook Renounceable Rights Issue and raised approximately RM182.08 million. The status of utilisation of proceeds as at 31 October 2010 is set out below:

No.	Purpose	Actual Utilisation
		(RM'000)
(i)	Repayment of bank borrowings	84,594
(ii)	Capital expenditure	61,033
(iii)	Acquisition of companies from Mermaid Drilling (Singapore) Pte Ltd (including incidental expenses)	13,605
(iv)	Working capital	11,785
(v)	Expenses for corporate exercises	3,779
	Total	174,796

2. SHARE BUYBACKS

The Company did not enter into any share buyback transactions during the financial year ended 31 July 2010.

3. OPTIONS, WARRANTS OR CONVERTIBLE SECURITIES

The Company has not issued any options, warrants or convertible securities during the financial year ended 31 July 2010 other than the granting of options under the Employees' Share Option Scheme ("ESOS") as disclosed in Note 17 to the Financial Statements.

4. DEPOSITORY RECEIPT PROGRAMME

The Company did not sponsor any depository receipt programme during the financial year ended 31 July 2010.

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 2010.

6. NON-AUDIT FEES

The non-audit fees incurred during the financial year ended 31 July 2010 amounted to RM295,000.

7. VARIATION IN RESULTS

There were no material variations between the unaudited results previously announced and the audited results for the financial year ended 31 July 2010.

8. PROFIT GUARANTEE

The Company did not provide any profit guarantee during the financial year ended 31 July 2010.

9. MATERIAL CONTRACTS

Saved for those disclosed as Related Party Transactions in Note 31 to the Financial Statements, there were no other material contracts entered into by the Company and/or its subsidiaries during the financial year ended 31 July 2010, which involve the interest of Directors and major shareholders.

10. REVALUATION POLICY

The Company does not adopt a policy of revaluation of its properties.

11. RECURRENT RELATED PARTY TRANSACTION ("RRPT")

The Company had obtained from its shareholders the mandate for the following RRPT at an Extraordinary General Meeting held on 10 December 2009 and the actual value transacted for the period from 10 December 2009 to 31 October 2010 is as follows:-

Transacting Parties	Related Parties	Nature of Transactions	Aggregate Value (RM)
Kencana Petroleum Group and Kencana Capital Assets Sdn. Bhd.	Dato' Mokhzani Bin Mahathir, Yeow Kheng Chew and Khasera Baru Sdn. Bhd.	Rental of office	1.7 million

STATEMENT ON INTERNAL CONTROL

BOARD RESPONSIBILITIES

THE BOARD OF DIRECTORS ("THE BOARD") AND MANAGEMENT ACKNOWLEDGE THE RESPONSIBILITY FOR MAINTAINING A SOUND SYSTEM OF INTERNAL CONTROL AND FOR REVIEWING ITS ADEQUACY AND INTEGRITY. AS SUCH, THE BOARD AND MANAGEMENT ARE COMMITTED TO DEVELOP AND IMPROVE ON THE CURRENT SYSTEM OF INTERNAL CONTROLS TAKING INTO CONSIDERATION OPERATIONAL EFFICIENCY.

The design of the internal controls implemented in the Group is to safeguard the interest of shareholders investment and the Group's assets. Inherently, it can only provide reasonable and not absolute assurance against material misstatement or losses.

During the financial year under review, the Board recognises several areas of improvement in the internal controls as highlighted by Ernst & Young, the internal auditor.

These areas of improvement have been communicated to the respective senior management for follow-up and review the status of actions on recommendations made by the internal auditors.

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 Board is responsible for the identification and evaluation of significant risk applicable to their respective areas of business and to formulate suitable internal control.

The key process of the Group's internal control systems includes the following:

(a) Defined lines of accountability and delegated authority;
(b) Submission of information to management, covering operatingand financial performance and key business indicators such as resource utilisation, cash flow performance and project Achievement;
(c) A budgeting process where operating units prepare projection for the coming year;
(d) Monthly monitoring of results against projection, 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;
(f) The Group's risk management framework is used as a basis to continuously monitor risk within the subsidiaries. The key risk profile and the significant risks faced by the Group have been presented to the Audit and Risk Management Committee. The Audit and Risk Management Committee obtains assurance on the adequacy and integrity of the Group's internal control system through reviews of reports it receives from the internal audit function
(g) Continuance of Group Risk Management Steering Committee comprising senior management of the Group which has the following responsibilities:-
    I. Oversee the overall management of all risks covering strategic risk management, operational risk management and project risk management;
    II. Review and approve risk management policies and risk tolerance limits;
    III. Ensure infrastructure, resources and systems are in place for risk management;
    IV. Create a high-level risk strategy (policy) aligned with Group's strategic business objectives;
    V. Identify and communicate to the Board the critical risks (present or potential) the Group faces, their changes, and the management action plans to mitigate the risks;
    VI. Conduct and review the risk assessment/analysis of projects and proposals that are of significant interest to the Group (potential, existing and new projects).
(h) The Group's internal audit function is co-sourced by its' internal audit (in-house) and Ernst & Young. The description of the activities of the internal audit function can be found in Audit and Risk Management Committee Report included in this Annual Report.

STATEMENT ON 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 ACT"). THE DIRECTORS ARE RESPONSIBLE FOR ENSURING THAT THE FINANCIAL STATEMENTS GIVE 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:

- adopted appropriate accounting policies and applied them consistently;
- made judgments and estimates that are reasonable and prudent;
- prepared financial statements on a going concern basis.

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

The Directors have the overall responsibility to take all steps as are reasonably open to them to preserve the interests of stakeholders and to safeguard the assets of the Group and to prevent and detect fraud and other irregularities.

HORIZONS

BEYOND HORIZONS

As we consolidate our winning values, we are poised to deliver stellar results and yield greater returns from our expertise, culminating in achieving excellence in financial performance towards being a renowned global entity.

KENCANA PETROLEUM

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DIRECTORS' REPORT
FOR YEAR ENDED 31 JULY 2010

The Directors have pleasure in submitting their report and the audited financial statements of the Group and of the Company for the financial year ended 31 July 2010.

PRINCIPAL ACTIVITIES
The principal activity of the Company is investment holding, whilst the principal activities of the subsidiaries are stated in Note 6 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 attributable to:		
Equity holders of the Company	136,166	14,208
Minority interest	32	-
	136,198	14,208

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

DIVIDENDS
Since the end of the previous financial year, the Company paid a first and final single tier dividend of 5.00% per ordinary share of RM0.10 each totalling approximately RM4,550,000 in respect of the year ended 31 July 2009 on 15 January 2010.

The Directors recommended a first and final single tier dividend of 5.00% per ordinary share of RM0.10 each totalling RM8,289,844 subject to the approval of the shareholders at the forthcoming Annual General Meeting in respect of the financial year ended 31 July 2010, based on the issued and paid-up share capital of 1,657,968,777 ordinary shares of RM0.10 each as at 31 July 2010.

DIRECTORS OF THE COMPANY
Directors who served since the date of the last report are:

Tan Sri Nik Mohamed bin Nik Yaacob
Dato' Mokhzani bin Mahathir
Chong Hin Loon
Yeow Kheng Chew
Ir. Cher Lee Kiat
Azmi bin Ismail
Mohd Adzahar bin Abdul Wahid
Syed Zaid bin Syed Jaffar Albar
Tunku Dato' Mahmood Fawzy bin Tunku Muhiyiddin (appointed on 29.9.2010)

DIRECTORS' REPORT (CONTINUED)
FOR YEAR ENDED 31 JULY 2010

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 financial year end (including the interests of the spouses or children of the Directors who themselves are not Directors of the Company) as recorded in the Register of Directors' Shareholdings are as follows:

	Number of ordinary shares of RM0.10 each			
	At 1.8.2009	Acquired	Disposed	At 31.7.2010
Shareholdings in which Directors have direct interest				
The Company				
Dato' Mokhzani bin Mahathir	4,150,000	3,403,000	-	7,553,000
Chong Hin Loon	96,300,000	79,427,300	(80,250,000)	95,477,300
Yeow Kheng Chew	7,250,000	6,600,200	-	13,850,200
Ir. Cher Lee Kiat - own	-	14,675,570	(2,860,400)	11,815,170
- others *	3,664,700	3,030,600	-	6,695,300
Azmi bin Ismail	250,000	205,000	-	455,000

* Shares owned by Wee Yeow Tin, the wife of Ir. Cher Lee Kiat. In accordance with Section 134(12)(c) of the Companies Act, 1965, the interest and deemed interest of Wee Yeow Tin in the shares of the Company and of its related corporations (other than wholly-owned subsidiaries) shall be treated as the interest of Ir. Cher Lee Kiat.

	Number of ordinary shares of RM0.10 each			
	At 1.8.2009	Acquired	Disposed	At 31.7.2010
Shareholdings in which Directors have indirect interest				
The Company				
Dato' Mokhzani bin Mahathir	360,339,497	293,913,638	(4,915,322)	649,337,813
Ir. Cher Lee Kiat	37,377,600	10,887,632	(39,100,000)	9,165,232

By virtue of Khasera Baru Sdn. Bhd. owning 649,337,813 shares, representing 39.16% equity interest in the Company, Dato' Mokhzani bin Mahathir is deemed to have interest in the shares of the Company.

By virtue of Best Wide Holdings Sdn. Bhd. owning 9,165,232 shares, representing 0.55% equity interest in the Company, Ir. Cher Lee Kiat is deemed to have interest in the shares of the Company.

By virtue of his interest of more than 15% in shares of the Company, Dato' Mokhzani bin Mahathir is also deemed to have interest in all subsidiaries during the financial year to the extent that Kencana Petroleum Berhad has an interest.

DIRECTORS' INTEREST (CONTINUED)

Details of his deemed shareholding in non-wholly owned subsidiaries are as follows:-

	Number of ordinary shares of RM1.00 each			
	At 1.8.2009	Acquired	Disposed	At 31.7.2010
Kencana Steelworks Sdn. Bhd.				
- Dato' Mokhzani bin Mahathir	1,000	-	-	1,000*
Kencana Marine Drilling Sdn. Bhd. (formerly known as Kencana Mermaid Drilling Sdn. Bhd.)				
- Dato' Mokhzani bin Mahathir	60,000	-	-	60,000
Teras-Kencana Ventures Sdn. Bhd. (formerly known as Teras Muhibah Sdn. Bhd.)				
- Dato' Mokhzani bin Mahathir	-	189,000	-	189,000

* Deemed interest by virtue of his shareholding in the Company and a body corporate which has a controlling stake in Kencana Steelworks Sdn. Bhd.

None of the other Directors holding office at 31 July 2010 had any interest in the ordinary shares of the Company and of its related corporations during the financial year.

None of the Directors holding office at 31 July 2010 have any entitlement under the Employees' Share Option Scheme ("ESOS") of the Company 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, other than the related party transactions as disclosed in the Note 31 to the financial statements.

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.

ISSUE OF SHARES AND DEBENTURES

Rights issue and bonus issue

(a) On 5 February 2010, the Company increased its issued and paid up share capital through the renounceable rights issue of 364,163,320 new ordinary shares of RM0.10 each ("rights shares"), at an issue price of RM0.50 per rights share on the basis of two (2) rights shares for every five (5) existing ordinary shares of RM0.10 each ("share") held in the Company;

(b) On 5 February 2010, following the completion of the rights issue, the Company increased its issued and paid up share capital through a bonus issue of 382,371,486 shares in the Company ("bonus shares") on the basis of three (3) bonus shares for every ten (10) existing shares (inclusive of the rights shares) held in the Company.

DIRECTORS' REPORT (CONTINUED)
FOR YEAR ENDED 31 JULY 2010

ISSUE OF SHARES AND DEBENTURES (CONTINUED)

Exercise of employees' share options

During the financial year, a total of 1,230,000 new ordinary shares of RM0.10 each was issued at an exercise price of RM1.35 each, 6,162,800 new ordinary shares of RM0.10 each was issued at an exercise price of RM1.40 each, 60,000 new ordinary shares of RM0.10 each was issued at an exercise price of RM1.60 each and 1,025,671 new ordinary shares of RM0.10 each at an exercise price of RM0.84 each for cash pursuant to the exercise of employees' share options scheme of the Company.

The details of options granted to subscribe for ordinary shares of RM0.10 each under the Company's ESOS, which remain outstanding at 31 July 2010, are disclosed in Note 17 to the financial statements.

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

There were no debentures issued 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 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 ("the Scheme") are as follows:

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

ii) Save for Directors, the eligible employees are 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 directors 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 as prescribed by Bursa Malaysia Securities Berhad from time to time;

OPTIONS GRANTED OVER UNISSUED SHARES (CONTINUED)

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.

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 1.8.2009**	**Effect of rights and bonus issues**	**Granted**	**Lapsed / Exercised**	**At 31.7.2010**
10.4.2008	RM1.40/RM0.84*	13,690,000	4,906,161	-	(7,609,869)	10,986,292
17.9.2008	RM1.35/RM0.81*	2,250,000	684,855	-	(1,230,000)	1,704,855
21.5.2009	RM1.60/RM0.96*	100,000	26,857	-	(60,000)	66,857
13.2.2010	RM1.27	-	-	4,171,000	-	4,171,000
15.6.2010	RM1.30	-	-	880,714	-	880,714

* The adjusted exercise price consequent to the Company's rights and bonus issues.

The Company has been granted an exemption by the Companies Commission of Malaysia from having to disclose in this report the name of persons to whom options have been granted during the duration of the ESOS Scheme and details of their holdings as required by Section 169(11) of the Companies Act, 1965, except for information on employees who were granted options of 300,000 ordinary shares of RM0.10 each and above under the ESOS Scheme.

The names of the option holders who were granted options of 300,000 ordinary shares of RM0.10 each and above during the duration of the ESOS Scheme are set out below:

	ESOS grant date	**ESOS exercise price RM**	**Number of options granted '000**
Nasaruddin Sia bin Abdullah	10.4.2008	0.84	401
Koh Liong See	10.4.2008	0.84	351
Mohd Shafiee bin Surip	10.4.2008	0.84	334
Ng Ying Sum	10.4.2008	0.84	334
Sim Kim Siong	10.4.2008	0.84	334
Choon Siew Thong	10.4.2008	0.84	334
Jamalludin bin Obeng	17.9.2008	0.81	669
Ang Choon Poh	17.9.2008	0.81	669
Abdul Rahim bin Awang	13.2.2010	1.27	2,500
Stephen Tam Kah Yen	13.2.2010	1.27	1,671
Tan Siew Lee	15.6.2010	1.30	480

DIRECTORS' REPORT (CONTINUED)
FOR YEAR ENDED 31 JULY 2010

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 which were unlikely to be realised in the ordinary course of business have been written down to an amount which they might be expected so to realise.

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, the financial performance of the Group and of the Company for the financial year ended 31 July 2010 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 EVENTS
The significant events are disclosed in Note 33 to the financial statements.

SUBSEQUENT EVENT
The subsequent events are disclosed in Note 34 to the financial statements.

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

Chong Hin Loon

Kuala Lumpur,

Date: 28 October 2010

BALANCE SHEETS
AT 31 JULY 2010

	Note	Group 2010 RM'000	Group 2009 RM'000 Restated	Company 2010 RM'000	Company 2009 RM'000
Assets					
Property, plant and equipment	3	394,573	245,556	2,160	939
Prepaid lease payments	4	91,318	63,615	-	-
Goodwill	5	37,335	36,166	-	-
Investments in subsidiaries	6	-	-	125,409	113,029
Investments in associates	7	53,857	56,213	-	-
Investments in jointly controlled entities	8	4	9	-	-
Investment in preference shares	9	1,352	4,187	-	-
Other investments	10	1	68	-	-
Receivables, deposits and prepayments	12	300	-	306,472	78,210
Deferred tax assets	19	74	-	-	-
Total non-current assets		578,814	405,814	434,041	192,178
Inventories	11	27,311	28,293	-	-
Receivables, deposits and prepayments	12	537,045	255,687	20,267	8,655
Current tax assets		5,763	1,254	26	14
Cash and cash equivalents	13	222,390	253,893	27,080	11,345
Assets classified as held for sale	14	3,773	-	-	-
Total current assets		796,282	539,127	47,373	20,014
Total assets		1,375,096	944,941	481,414	212,192
Equity					
Share capital	15	165,797	90,296	165,797	90,296
Reserves	16	200,105	82,653	200,105	82,653
Retained profits		387,588	255,968	17,721	8,059
Total equity attributable to equity holders of the Company		753,490	428,917	383,623	181,008
Minority interest		1,895	-	-	-
Total equity		755,385	428,917	383,623	181,008

	Note	Group 2010 RM'000	Group 2009 RM'000 Restated	Company 2010 RM'000	Company 2009 RM'000
Liabilities					
Loans and borrowings	18	43,033	155,988	350	267
Deferred tax liabilities	19	26,414	24,847	-	-
Total non-current liabilities		69,447	180,835	350	267
Loans and borrowings	18	182,843	56,780	60,100	30,080
Payables and accruals	20	362,685	276,162	37,341	837
Tax liabilities		4,736	2,247	-	-
Total current liabilities		550,264	335,189	97,441	30,917
Total liabilities		619,711	516,024	97,791	31,184
Total equity and liabilities		1,375,096	944,941	481,414	212,192

The notes on pages 96 to 151 are an integral part of these financial statements.

INCOME STATEMENTS
FOR THE YEAR ENDED 31 JULY 2010

		Group		Company	
	Note	2010 RM'000	2009 RM'000	2010 RM'000	2009 RM'000
Revenue	21	1,090,090	1,140,843	31,220	16,067
Costs of services rendered	21	(850,293)	(932,621)	-	-
Gross profit		239,797	208,222	31,220	16,067
Other income		11,732	8,384	-	-
Administrative expenses		(72,537)	(57,561)	(10,075)	(6,579)
Results from operating activities		178,992	159,045	21,145	9,488
Interest income		5,154	4,072	793	107
Finance costs		(11,476)	(10,442)	(2,093)	(837)
Operating profit	22	172,670	152,675	19,845	8,758
Share of (loss)/profit after tax of associates		(845)	141	-	-
Share of loss after tax of jointly controlled entities		(5)	(10)	-	-
Profit before tax		171,820	152,806	19,845	8,758
Tax expense	24	(35,622)	(34,603)	(5,637)	(2,705)
Profit for the year		136,198	118,203	14,208	6,053
Attributed to:					
Equity holders		136,166	118,203		
Minority interest		32	-		
		136,198	118,203		
Basic earnings per ordinary share (sen)	26	10.72	10.08		
Diluted earnings per ordinary share (sen)	26	10.66	10.04		

The notes on pages 96 to 151 are an integral part of these financial statements.

STATEMENT OF CHANGES IN EQUITY
FOR THE YEAR ENDED 31 JULY 2010

	← Non-distributable		→	Distributable			
Group	**Share capital RM'000**	**Share premium RM'000**	**Share option reserve RM'000**	**Retained profits RM'000**	**Total RM'000**	**Minority interest RM'000**	**Total equity RM'000**
At 1 August 2008	90,200	78,129	668	142,263	311,260	-	311,260
Profit for the year	-	-	-	118,203	118,203	-	118,203
Share options exercised	96	1,227	-	-	1,323	-	1,323
Share-based payments	-	-	2,642	-	2,642	-	2,642
Share options lapsed	-	-	(12)	12	-	-	-
Transfer to share premium for share options exercised	-	327	(327)	-	-	-	-
Share issue expenses	-	(1)	-	-	(1)	-	(1)
Dividend paid (Note 25)	-	-	-	(4,510)	(4,510)	-	(4,510)
At 31 July 2009 / 1 August 2009	90,296	79,682	2,971	255,968	428,917	-	428,917
Profit for the year	-	-	-	136,166	136,166	32	136,198
Renounceable rights issue	36,416	145,665	-	-	182,081	-	182,081
Bonus issue	38,237	(38,237)	-	-	-	-	-
Share issue expenses	-	(2,758)	-	-	(2,758)	-	(2,758)
Share options exercised	848	10,398	-	-	11,246	-	11,246
Share-based payments	-	-	2,388	-	2,388	-	2,388
Share options lapsed	-	-	(4)	4	-	-	-
Transfer to share premium for share options exercised	-	2,794	(2,794)	-	-	-	-
Dividend paid (Note 25)	-	-	-	(4,550)	(4,550)	-	(4,550)
Issuance of preference shares of a subsidiary	-	-	-	-	-	1,863	1,863
At 31 July 2010	165,797	197,544	2,561	387,588	753,490	1,895	755,385
	Note 15	Note 16	Note 16				

STATEMENT OF CHANGES IN EQUITY (CONTINUED)
FOR THE YEAR ENDED 31 JULY 2010

	Non-distributable			Distributable	
Company	Share capital RM'000	Share premium RM'000	Share option reserve RM'000	Retained profits RM'000	Total equity RM'000
At 1 August 2008	90,200	78,129	668	6,504	175,501
Profit for the year	-	-	-	6,053	6,053
Share options exercised	96	1,227	-	-	1,323
Share-based payments	-	-	2,642	-	2,642
Share options lapsed	-	-	(12)	12	-
Transfer to share premium for share options exercised	-	327	(327)	-	-
Shares issue expenses	-	(1)	-	-	(1)
Dividend paid (Note 25)	-	-	-	(4,510)	(4,510)
At 31 July 2009 / 1 August 2009	90,296	79,682	2,971	8,059	181,008
Profit for the year	-	-	-	14,208	14,208
Renounceable rights issue	36,416	145,665	-	-	182,081
Bonus issue	38,237	(38,237)	-	-	-
Shares issue expenses	-	(2,758)	-	-	(2,758)
Share options exercised	848	10,398	-	-	11,246
Share-based payments	-	-	2,388	-	2,388
Share options lapsed	-	-	(4)	4	-
Transfer to share premium for share options exercised	-	2,794	(2,794)	-	-
Dividend paid (Note 25)	-	-	-	(4,550)	(4,550)
At 31 July 2010	165,797	197,544	2,561	17,721	383,623
	Note 15	Note 16	Note 16		

The notes on pages 96 to 151 are an integral part of these financial statements.

CASH FLOW STATEMENTS
FOR THE YEAR ENDED 31 JULY 2010

	Group		Company	
	2010 RM'000	2009 RM'000	2010 RM'000	2009 RM'000
Cash flows from operating activities				
Profit before tax	171,820	152,806	19,845	8,758
Adjustments for:				
Allowance for diminution in other investments	19	-	-	-
Amortisation of prepaid lease payments	744	683	-	-
Depreciation of property, plant and equipment	22,607	17,205	227	132
Dividend income – subsidiaries	-	-	(24,637)	(10,667)
Finance costs	11,476	10,442	2,093	837
Gain on disposal of property, plant and equipment	(2,557)	(80)	-	-
Gain on disposal of redeemable preference shares	(2,274)	-	-	-
Interest income	(5,154)	(4,072)	(793)	(107)
Loss on disposal of property, plant and equipment	114	-	76	1
Loss on disposal of associate (Note 7(b))	181	-	-	-
Net unrealised loss on foreign exchange	948	-	-	-
Property, plant and equipment written off	393	86	131	2
Share-based payments	2,388	2,642	398	218
Share of loss/(profit) after tax of associates	845	(141)	-	-
Share of loss after tax of jointly controlled entities	5	10	-	-
Operating profit/(loss) before changes in working capital	201,555	179,581	(2,660)	(826)
Inventories	982	(27,476)	-	-
Receivables, deposits and prepayments	(175,686)	11,929	2,055	10,421
Payables and accruals	84,846	(107,005)	36,504	632
Cash generated from operations	111,697	57,029	35,899	10,227
Taxes paid	(36,149)	(33,459)	(2,679)	(2,727)
Interest paid	(11,476)	(10,442)	(2,093)	(837)
Net cash generated from operating activities	64,072	13,128	31,127	6,663

CASH FLOW STATEMENTS (CONTINUED)
FOR THE YEAR ENDED 31 JULY 2010

		Group		Company	
		2010 RM'000	2009 RM'000	2010 RM'000	2009 RM'000
Cash flows from investing activities					
Acquisition of shares in associates		-	(27,697)	-	-
Deposits paid for acquisition of shares in an associate (Note 12)		(101,129)	-	-	-
Prepaid lease payments		(28,447)	(88)	-	-
Acquisition of property, plant and equipment	(i)	(175,133)	(46,005)	(1,500)	(359)
Interest received		5,154	4,072	793	107
Net cash outflow from acquisition of subsidiaries (Note 32)/(Note 6)		(171)	-	(10,390)	-
Investment in preference shares		(2,310)	-	-	-
Proceeds from disposal of property, plant and equipment		6,411	903	345	-
Proceeds from disposal of preference shares		3,637	-	-	-
Proceeds from disposal of other investments		48	-	-	-
Increase in equity interest in a subsidiary		-	-	-	(10,000)
Dividends received from subsidiaries		-	-	8,000	-
Isuance of preference shares of a subsidiary to minority interest		1,863	-	-	-
Net cash used in investing activities		(290,077)	(68,815)	(2,752)	(10,252)
Cash flows from financing activities					
Net proceeds of borrowings		6,649	53,405	29,603	29,947
(Increase)/decrease in pledged deposits placed with licensed banks		(1,440)	8,351	-	-
Proceeds from issuance of rights shares		182,081	-	182,081	-
Proceeds from the exercise of share options		11,246	1,323	11,246	1,323
Share issue expenses		(2,758)	(1)	(2,758)	(1)
Dividends paid to shareholders		(4,550)	(4,510)	(4,550)	(4,510)
Advances to subsidiaries		-	-	(228,262)	(14,146)
Net cash generated from / (used in) financing activities		191,228	58,568	(12,640)	12,613
Net (decrease) / increase in cash and cash equivalents		(34,777)	2,881	15,735	9,024
Cash and cash equivalents at 1 August		229,521	226,640	11,345	2,321
Cash and cash equivalents at 31 July	(ii)	194,744	229,521	27,080	11,345

(i) Acquisition of property, plant and equipment

During the financial year, the Group and the Company acquired property, plant and equipment with an aggregate cost of RM179,758,000 (2009 - RM54,647,000) and RM2,000,000 (2009 - RM759,000) respectively, of which RM4,625,000 (2009 - RM8,642,000) and RM500,000 (2009 - RM400,000) respectively 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	
	2010 RM'000	2009 RM'000	2010 RM'000	2009 RM'000
Cash and bank balances (Note 13)	149,604	81,151	16,835	3,907
Deposits placed with licensed banks (Note 13)	72,786	172,742	10,245	7,438
Bank overdrafts (Note 18)	(2,013)	(179)	-	-
	220,377	253,714	27,080	11,345
Less: Deposits pledged (Note 13)	(25,633)	(24,193)	-	-
	194,744	229,521	27,080	11,345

NOTES TO THE FINANCIAL STATEMENTS

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

REGISTERED OFFICE
Lot 6.08, 6th Floor
Plaza First Nationwide
No.161, Jalan Tun H.S. Lee
50000 Kuala Lumpur

PRINCIPAL PLACES OF BUSINESS
Level 6
Menara Kencana Petroleum
Solaris Dutamas
No. 1, Jalan Dutamas 1
50480 Kuala Lumpur

Plot D1, Lumut Port Industrial Park
Kampung Acheh, Mukim Lumut
Daerah Manjung
32000 Sitiawan
Perak Darul Ridzuan

The consolidated financial statements as at and for the financial year ended 31 July 2010 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 Group as at and for the financial year ended 31 July 2010 do not include other entities.

The Company is principally engaged in investment holding, whilst the principal activities of the subsidiaries are stated in Note 6 to the financial statements. There has been no significant change in the nature of these activities during the financial year.

The financial statements were approved by the Board of Directors on 28 October 2010.

1. BASIS OF PREPARATION

(a) Statement of compliance

These financial statements have been prepared in accordance with Financial Reporting Standards (FRS), accounting principles generally accepted and the Companies Act, 1965 in Malaysia.

The Group and the Company have not applied the following accounting standards (including its consequential amendments) and Interpretations that have been issued by the Malaysian Accounting Standards Board (MASB) but are not yet effective:

1. BASIS OF PREPARATION (CONTINUED)

(a) Statement of compliance (continued)

FRSs, Interpretations and amendments effective for annual periods beginning on or after 1 January 2010

- FRS 4, Insurance Contracts
- FRS 7, Financial Instruments: Disclosures
- FRS 101, Presentation of Financial Statements (revised)
- FRS 123, Borrowing Costs (revised)
- FRS 139, Financial Instruments: Recognition and Measurement
- Amendments to FRS 1, First-time Adoption of Financial Reporting Standards
- Amendments to FRS 2, Share-based Payment: Vesting Conditions and Cancellations
- Amendments to FRS 7, Financial Instruments: Disclosures
- Amendments to FRS 101, Presentation of Financial Statements - Puttable Financial Instruments and Obligations Arising on Liquidation
- Amendments to FRS 127, Consolidated and Separate Financial Statements: Cost of an Investment in a Subsidiary, Jointly Controlled Entity or Associate
- Amendments to FRS 132, Financial Instruments: Presentation
  - Puttable Financial Instruments and Obligations Arising on Liquidation
  - Separation of Compound Instruments
- Amendments to FRS 139, Financial Instruments: Recognition and Measurement
  - Reclassification of Financial Assets
  - Collective Assessment of Impairment for Banking Institutions
- Improvements to FRSs (2009)
- IC Interpretation 9, Reassessment of Embedded Derivatives
- IC Interpretation 10, Interim Financial Reporting and Impairment
- IC Interpretation 11, FRS 2 - Group and Treasury Share Transactions
- IC Interpretation 13, Customer Loyalty Programmes
- IC Interpretation 14, FRS 119 - The Limit on a Defined Benefit Asset, Minimum Funding Requirements and Their Interaction

FRSs, Interpretations and amendments effective for annual periods beginning on or after 1 March 2010

- Amendments to FRS 132, Financial Instruments: Presentation - Classification of Rights Issues

FRSs, Interpretations and amendments effective for annual periods beginning on or after 1 July 2010

- FRS 1, First-time Adoption of Financial Reporting Standards (revised)
- FRS 3, Business Combinations (revised)
- FRS 127, Consolidated and Separate Financial Statements (revised)
- Amendments to FRS 2, Share-based Payment
- Amendments to FRS 5, Non-current Assets Held for Sale and Discontinued Operations
- Amendments to FRS 138, Intangible Assets
- IC Interpretation 12, Service Concession Agreements
- IC Interpretation 16, Hedges of a Net Investment in a Foreign Operation
- IC Interpretation 17, Distribution of Non-cash Assets to Owners
- Amendments to IC Interpretation 9, Reassessment of Embedded Derivatives

NOTES TO THE FINANCIAL STATEMENTS (CONTINUED)

1. BASIS OF PREPARATION (CONTINUED)

(a) Statement of compliance (continued)

FRSs, Interpretations and amendments effective for annual periods beginning on or after 1 January 2011

- Amendments to FRS 1, First-time Adoption of Financial Reporting Standards
  - Limited Exemption from Comparative FRS 7 Disclosures for First-time Adopter
  - Additional Exemption for First-time Adopters
- Amendments to FRS 7, Financial Instruments: Disclosures - Improving Disclosures about Financial Instruments
- Amendments to FRS 2, Group Cash-settled Share Based Payment
- IC Interpretation 4, Determining whether an Arrangement contain a Lease
- IC Interpretation 18, Transfer of Assets from Customers

FRSs, Interpretations and amendments effective for annual periods beginning on or after 1 January 2012

- IC Interpretation 15, Agreements for the Construction of Real Estate

The Group and the Company plan to apply the abovementioned standards, amendments and interpretations:

- from the annual period beginning 1 August 2010 for those standards, amendments or interpretations that will be effective for annual periods beginning on or after 1 January 2010, 1 March 2010 and 1 July 2010, except for FRS 4, IC Interpretation 12, IC Interpretation 13, IC Interpretation 14, IC Interpretation 16 and IC Interpretation 17 which are not applicable to the Group or to the Company.

- from the annual period beginning 1 August 2011 for those standards, amendments or interpretations that will be effective for annual periods beginning on or after 1 January 2011 and 1 January 2012, except for IC Interpretation 15 and IC Interpretation 18.

The impacts and disclosures as required by FRS 108.30(b), Accounting Policies, Changes in Accounting Estimates and Errors in respect of applying FRS 7 and FRS 139 are not disclosed by virtue of the exemption given in these respective FRSs.

The amendments to FRS 132 remove the transitional provision that exempted an entity from separating the liability and equity components of compound instrument issued before 1 January 2003. As a result of the amendments, an entity shall separate a compound financial instrument to its liability and equity components when the entity first applies FRS 139, Financial Instruments: Recognition and Measurement.

The initial application of other standards, amendments and interpretations, which will be applied prospectively, is not expected to have any material financial impact to the current and prior year's financial statements upon their first adoption.

Material impacts of initial application of a standard, an amendment or an interpretation, which will be applied retrospectively, are disclosed below:

1. BASIS OF PREPARATION (CONTINUED)

(a) Statement of compliance (continued)

Improvements to FRSs (2009)

Improvements to FRSs (2009) contain various amendments that result in accounting changes for presentation, recognition or measurement and disclosure purposes. Amendment that has a material impact to the Group is:

- **Amendments to FRS 117, Leases (effective for annual periods beginning on or after 1 January 2010)**
  The amendments clarify the classification of lease of land and require entities with existing leases of land and buildings to reassess the classification of land as finance or operating lease. Leasehold land which in substance is a finance lease will be reclassified to property, plant and equipment. The adoption of these amendments will result in a change in accounting policy which will be applied retrospectively in accordance with the transitional provisions.

  This change in accounting policy will result in reclassification of the carrying amount of lease of land of the Group amounting to RM91,318,000 as at 31 July 2010 from prepaid lease payments to property, plant and equipment.

(b) Basis of measurement

The financial statements have been prepared on the historical cost basis except as disclosed in the notes to the financial statements.

(c) Functional and presentation currency

These financial statements are presented in Ringgit Malaysia (RM), which is the Company's functional currency. All financial information is presented in RM and 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.

There are no significant areas of estimation uncertainty and critical judgements in applying accounting policies that have significant effect on the amounts recognised in the financial statements other than those disclosed in the following notes:-

- Note 2(c)(iii) - depreciation - assessment of residual value
- Note 2(t)(i) - recognition of revenue from construction contracts
- Note 5 - impairment test of goodwill
- Note 17 - share-based payments

NOTES TO THE FINANCIAL STATEMENTS
(CONTINUED)

2. SIGNIFICANT ACCOUNTING POLICIES

The accounting policies set out below have been applied consistently to the 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. Subsidiaries are consolidated using the purchase method of accounting.

Under the purchase method of accounting, the financial statements of the subsidiaries are included in the consolidated financial statements from the date that control commences until the date that control ceases.

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).

(ii) Minority interests

Minority interest at the balance sheet date, being the portion of the net identifiable 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 interest 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 interest 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 with all such profits until the minority's share of losses previously absorbed by the Group has been recovered.

Included in minority interest is redeemable preference share capital of a subsidiary which is classified as equity as they are redeemable at the option of the issuer.

(iii) 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).

2. SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

(a) Basis of consolidation (continued)

(iv) 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.

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).

(v) 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 the Group entities at exchange rates at the dates of the transactions.

Monetary assets and liabilities denominated in foreign currencies at reporting period are retranslated to the functional currency at the exchange rate at that date. The foreign currency gain or loss on monetary items is the difference between amortised cost in the functional currency at the beginning of the reporting date and the amortised cost in foreign currency translated at the exchange rate at the end of the reporting period.

Non-monetary assets and liabilities denominated in foreign currencies are not retranslated at the end of the reporting date except for those that are measured at fair value which are retranslated to the functional currency at the exchange rate at the date that the fair value was determined. Non-monetary items that are measured at historical costs in a foreign currency are translated using the exchange rate at the date of the transaction.

NOTES TO THE FINANCIAL STATEMENTS
(CONTINUED)

2. SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

(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 and 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. The cost of self-constructed assets also includes the cost of materials and direct labour. Purchased software that is integral to the functionality of the related equipment is capitalised as part of that equipment.

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.

Gains and losses on disposal of an item of property, plant and equipment are determined by comparing the proceeds from disposal with the carrying amount of property, plant and equipment and are recognised net within "other income" or "other expenses" respectively in the income statements.

(ii) Subsequent costs

The cost of replacing a 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 the replaced part is derecognised in the income statements. The costs of the day-to-day servicing of property, plant and equipment are recognised in the income statements as incurred.

(iii) Depreciation

Depreciation is calculated over the depreciable amount, which is the cost of an asset, or other amount substituted for cost, less its residual value.

Depreciation is recognised in the income statements 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 unless it is reasonably certain that the Group will obtain ownership by the end of the lease term. Freehold land is not depreciated.

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

Freehold office premises	43 years
Buildings and structures	50 years
Computers, equipment, air conditioners, fixtures and fittings	2 - 10 years
Motor vehicles	4 - 5 years
Plant and machinery	3 - 10 years
Offshore support vessels	20 years

Depreciation methods, useful lives and residual values are reviewed and adjusted as appropriate at end of the reporting period.

<u>Residual value for offshore support vessels</u>

The Group has estimated the residual value of the offshore support vessels to be approximately 20-25% of its cost. The estimated residual value was made based on management's best estimate of the amount that the Group would obtain from the disposal or continuing use of the offshore support vessels at the end of 20 years.

2. SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

(d) Leased assets

(i) Finance lease

Leases in terms of which the Group or the Company assume substantially all the risks and rewards of ownership are classified as finance leases. Upon initial recognition the leased asset is measured at an amount equal to the lower of its fair value and the present value of the minimum lease payments. Subsequent to initial recognition, the asset is accounted for in accordance with the accounting policy applicable to that asset.

Minimum lease payments made under finance leases are apportioned between the finance expense and the reduction of the outstanding liability. The finance expense is allocated to each period during the lease term so as to produce a constant periodic rate of interest on the remaining balance of the liability. Contingent lease payments are accounted for by revising the minimum lease payments over the remaining term of the lease when the lease adjustment is confirmed.

(ii) Operating lease

Leasehold land that normally has an indefinite economic life and title is not expected to pass to the lessee by the end of the lease term is treated as an operating lease. The payment made on entering into or acquiring a leasehold land is accounted for as prepaid lease payments.

Payments made under operating leases are recognised in income statements 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.

(e) Intangible assets

Goodwill

Goodwill arises on business combinations and is measured at cost less any accumulated impairment losses. In respect of equity accounted investees, the carrying amount of goodwill is included in the carrying amount of the investment and an impairment loss on such an investment is not allocated to any asset, including goodwill, that forms part of the carrying amount of the equity accounted investee.

For acquisitions prior to 1 January 2006, goodwill represents the excess of the cost of the acquisition over the Group's interest in the fair values of the net identifiable assets and liabilities.

For business acquisitions beginning from 1 January 2006, 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.

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

NOTES TO THE FINANCIAL STATEMENTS (CONTINUED)

2. SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

(f) Investments in equity securities

Investments in equity securities are recognised initially at fair value plus attributable transaction costs.

Subsequent to initial recognition, the investments in non-current equity securities other than investments in subsidiaries, associates and jointly-controlled entities, are stated at cost less allowance for diminution in value.

Where in the opinion of the Directors, there is a decline other than temporary in the value of non-current equity securities other than investment in subsidiaries, associates and jointly-controlled entities, the allowance for diminution in value is recognised as an expense in the financial year in which the decline is identified.

On disposal of an investment, the difference between net disposal proceeds and its carrying amount is recognised in the income statements.

(g) Investments in preference shares

Investments in preference shares are recognised initially at cost plus attributable transaction costs.

Subsequent to initial recognition, the investments in preference shares are stated at cost less allowance for diminution in value.

Where in the opinion of the Directors, there is a decline other than temporary in the value of preference shares; the allowance for diminution in value is recognised as an expense in the financial year in which the decline is identified.

On disposal of investment in preference shares, the difference between net disposal proceeds and its carrying amount is recognised in the income statements.

(h) 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.

(i) Non-current assets held for sale

Non-current assets (or disposal group comprising assets and liabilities) that are expected to be recovered primarily through sale rather than through continuing use, are classified as held for sale.

Immediately before classification as held for sale, the assets (or components of a disposal group) are remeasured in accordance with the Group's accounting policies. Thereafter, generally the assets (or disposal group) are measured at the lower of their carrying amount and fair value less costs to sell.

Any impairment loss on a disposal group is first allocated to goodwill, and then to remaining assets and liabilities on pro rata basis, except that no loss is allocated to inventories, financial assets and deferred tax assets, which continue to be measured in accordance with the Group's accounting policies. Impairment losses on initial classification as held for sale and subsequent gains or losses on remeasurement are recognised in the income statements. Gains are not recognised in excess of any cumulative impairment loss.

2. SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

(j) 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 billings 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 for all contracts in which costs incurred plus recognised profits exceed progress billings. 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 sheets.

(k) 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.

(l) Inventories

Inventories are measured at the lower of cost and net realisable value. The costs of inventories comprise raw materials and spare parts and are determined on a first-in-first-out basis. Cost consists of the original purchase price plus incidentals in bringing these inventories to their present location and condition.

(m) Impairment of assets

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

If any such indication exists, then the asset's recoverable amount is estimated. For the purpose of impairment testing, assets are grouped together into the smallest group of assets that generates cash inflows from continuing use that are largely independent of the cash inflows of other assets or groups of assets (the "cash-generating unit"). The goodwill acquired in a business combination, for the purpose of impairment testing, is allocated to cash-generating units that are expected to benefit from the synergies of the combination. 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.

The recoverable amount of an asset or cash-generating unit is the greater of its value in use and its fair value less cost to sell. In assessing the 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 is recognised if the carrying amount of an asset or its cash-generating unit exceeds its recoverable amount.

Impairment losses are recognised in the income statements. Impairment losses are 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.

An impairment loss in respect of goodwill is not reversed. Impairment losses other than that in respect of goodwill recognised in prior periods are assessed at the end of each reporting period 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 since the last impairment loss was recognised. 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. Reversal of impairment losses are credited to the income statements in the year in which the reversals are recognised.

NOTES TO THE FINANCIAL STATEMENTS
(CONTINUED)

2. SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

(n) Equity instruments

Instruments classified as equity are stated at cost on initial recognition and are not remeasured subsequently.

Issue expenses

Costs directly attributable to issue of instruments classified as equity are recognised as a deduction from equity.

(o) Loans and borrowings

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

(p) Hire purchase

Property, plant and equipment acquired under hire purchase arrangements are capitalised at the value equivalent to the principal sum of total hire purchase rental payable. The interest element of the rental obligations is charged to the income statements over the period of the hire purchase and accounted for on a sum-of-digit method.

(q) 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 contributions 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 grant date fair value of options granted to employees is recognised as an employee expense, with a corresponding increase in equity, over the period that the employees become unconditionally entitled to the awards. The amount recognised as an expense is adjusted to reflect the number of awards for which the related service and non-market vesting conditions are expected to be met, such that the amount ultimately recognised as an expense is based on the number of awards that meet the related service and non-market performance conditions at the vesting date.

For share-based payment awards with non-vesting conditions, the grant date fair value of the share-based payment is measured to reflect such conditions and there is no true-up for differences between expected and actual outcomes.

The fair value of employee share 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), expected life of the instruments (based on historical experience and general option holder behaviour), and the 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)

(r) 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.

(s) 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.

(t) Revenue

(i) Construction contracts

Contract revenue includes the initial amount agreed in the contract plus any variations in contract work, claims and incentive payments, to the extent that it is probable that they will result in revenue and can be measured reliably. As soon as the outcome of a construction contract can be estimated reliably, contract revenue and contract cost are recognised in the income statements in proportion to the stage of completion of the contract.

The stage of completion is assessed by reference to the proportion that contract costs incurred for work performed to-date bear to the estimated total contract costs.

When the outcome of a construction contract cannot be estimated reliably, contract revenue is recognised only to the extent of contract costs incurred that are likely to be recoverable. An expected loss on a contract is recognised immediately in the income statements.

(ii) Services

Revenue from manpower services is recognised in income statements on the accrual basis.

(iii) Chartered vessel income

Chartered vessel income is recognised when the services are rendered and is computed at the contracted daily rate.

(iv) Offshore drilling and drilling related services

Revenue from drilling and drilling related services are recognised when the services are rendered and is computed based on the contracted rate.

NOTES TO THE FINANCIAL STATEMENTS
(CONTINUED)

2. SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

(t) Revenue (continued)

(v) Management fees

Management fees are recognised on an accrual basis based on a predetermined rate.

(vi) Rental income

Rental income is recognised on an accrual basis.

(vii) Dividend income

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

(u) 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 statements using the effective interest method, in the period in which they are incurred.

(v) Tax expense

Tax expense comprises current and deferred tax. Tax expense is recognised in the income statements 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 end of the reporting period.

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 differences 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.

A tax incentive that is not a tax base of an asset is recognised as a reduction of tax expense in the income statements as and when it is granted and claimed. Any unutilised portion of the tax incentive is recognised as a deferred tax asset to the extent that it is probable that the future taxable profits will be available against which the unutilised tax incentive can be utilised.

2. SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

(w) Earnings per share

The Group presents basic and diluted earnings per share data for its ordinary shares (EPS).

Basic EPS is calculated by dividing the profit or loss attributable to ordinary equity holders 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 equity holders 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.

(x) Operating segments

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

Following the adoption of FRS 8, Operating Segments, during the financial year, an operating segment is a component of the Group that engages in business activities from which it may earn revenues and incur expenses, including revenues and expenses that relate to transactions with any of the Group's other components. An operating segment's operating results are reviewed regularly by the chief operating decision maker, which in this case is the Group Chief Executive Officer, to make decisions about resources to be allocated to the segment and assess its performance, and for which discrete financial information is available.

3. PROPERTY, PLANT AND EQUIPMENT

Group	Freehold land RM'000	Freehold office premises RM'000	Leasehold buildings and structures RM'000	Computers, equipment, air-conditioners, fixtures and fittings RM'000	Motor vehicles RM'000	Plant and machinery RM'000	Offshore support vessels RM'000	Total RM'000
Cost								
At 1 August 2008	750	3,991	149,657	17,616	8,620	77,167	-	257,801
Additions	-	-	14,652	3,785	5,125	31,085	-	54,647
Disposals	-	-	(1)	(57)	(1,811)	(155)	-	(2,024)
Written off	-	-	-	(401)	(9)	(281)	-	(691)
At 31 July 2009/ 1 August 2009	750	3,991	164,308	20,943	11,925	107,816	-	309,733
Additions	-	-	31,847	2,312	2,524	15,423	127,652	179,758
Disposals	-	(2,620)	(19)	(438)	(1,416)	(498)	-	(4,991)
Written off	-	-	(470)	(831)	(6)	(143)	-	(1,450)
Transfer to assets held for sale	(750)	-	(3,404)	(36)	-	-	-	(4,190)
Reclassification	-	-	(5,594)	5,188	-	406	-	-
At 31 July 2010	-	1,371	186,668	27,138	13,027	123,004	127,652	478,860

NOTES TO THE FINANCIAL STATEMENTS (CONTINUED)

3. PROPERTY, PLANT AND EQUIPMENT (CONTINUED)

Group	Freehold land RM'000	Freehold office premises RM'000	Leasehold buildings and structures RM'000	Computers, equipment, air-conditioners, fixtures and fittings RM'000	Motor vehicles RM'000	Plant and machinery RM'000	Offshore support vessels RM'000	Total RM'000
Accumulated depreciation								
At 1 August 2008	164	243	11,738	8,676	3,954	24,003	-	48,778
Depreciation for the year	8	75	3,462	2,378	1,869	9,413	-	17,205
Disposals	-	-	-	(22)	(1,174)	(5)	-	(1,201)
Written off	-	-	-	(338)	(4)	(263)	-	(605)
At 31 July 2009/ 1 August 2009	172	318	15,200	10,694	4,645	33,148	-	64,177
Depreciation for the year	1	75	3,475	2,868	2,217	10,688	3,283	22,607
Disposals	-	(295)	(4)	(80)	(639)	(5)	-	(1,023)
Written off	-	-	(311)	(603)	(3)	(140)	-	(1,057)
Transfer to assets held for sale	(173)	-	(231)	(13)	-	-	-	(417)
Reclassification	-	-	(2,772)	2,772	-	-	-	-
At 31 July 2010	-	98	15,357	15,638	6,220	43,691	3,283	84,287
Carrying amounts								
At 1 August 2008	586	3,748	137,919	8,940	4,666	53,164	-	209,023
At 31 July 2009/ 1 August 2009	578	3,673	149,108	10,249	7,280	74,668	-	245,556
At 31 July 2010	-	1,273	171,311	11,500	6,807	79,313	124,369	394,573

3. PROPERTY, PLANT AND EQUIPMENT (CONTINUED)

Company	Renovation RM'000	Computers, equipment, air-conditioners, fixtures and fittings RM'000	Motor vehicles RM'000	Total RM'000
Cost				
At 1 August 2008	86	240	8	334
Additions	32	303	424	759
Disposal	-	(1)	-	(1)
Written off	-	(2)	-	(2)
At 31 July 2009/1 August 2009	118	540	432	1,090
Additions	3	132	1,865	2,000
Disposal	(10)	(117)	(451)	(578)
Written off	(111)	(57)	-	(168)
At 31 July 2010	-	498	1,846	2,344
Accumulated depreciation				
At 1 August 2008	5	14	-	19
Depreciation for the year	11	55	66	132
At 31 July 2009/1 August 2009	16	69	66	151
Depreciation for the year	11	70	146	227
Disposal	(2)	(27)	(128)	(157)
Written off	(25)	(12)	-	(37)
At 31 July 2010	-	100	84	184
Carrying amount				
At 1 August 2008	81	226	8	315
At 31 July 2009/1 August 2009	102	471	366	939
At 31 July 2010	-	398	1,762	2,160

NOTES TO THE FINANCIAL STATEMENTS
(CONTINUED)

3. PROPERTY, PLANT AND EQUIPMENT (CONTINUED)

Security

At 31 July 2010, the freehold office premises, leasehold buildings and structures, and offshore support vessel of the Group with a carrying amount of RM735,000 (2009 – RM2,344,000), RM46,261,000 (2009 - RM49,388,000) and RM45,292,000 (2009 – RM Nil), respectively, have been pledged to licensed banks as security for term loan facilities granted to the Group (Note 18).

Assets under hire purchase

Included in property, plant and equipment of the Group and of the Company are plant and machinery and motor vehicles acquired under hire purchase arrangements with carrying amounts of RM51,593,000 (2009 – RM57,764,000) and RM442,000 (2009 – RM361,000) respectively.

4. PREPAID LEASE PAYMENTS

Group	Unexpired period more than 50 years RM'000
Cost	
At 1 August 2008	66,129
Additions	88
At 31 July 2009/1 August 2009	66,217
Additions	28,447
At 31 July 2010	94,664
Accumulated amortisation	
At 1 August 2008	1,919
Amortisation for the year	683
At 31 July 2009/1 August 2009	2,602
Amortisation for the year	744
At 31 July 2010	3,346
Carrying amount	
At 1 August 2008	64,210
At 31 July 2009/1 August 2009	63,615
At 31 July 2010	91,318

4. PREPAID LEASE PAYMENTS (CONTINUED)

Security
At 31 July 2010, the leasehold land of the Group with a carrying amount of RM15,402,000 (2009 - RM15,578,000) has been pledged to a licensed bank as security for term loan facilities granted to the Group (Note 18).

Titles
The issuance of title for eight plots (2009 - eight plots) of land situated at Lumut Port Industrial Park, Kampung Acheh, Mukim of Lumut, District of Manjung, Perak, three plots of land and the bungalow land situated at Mukim Teluk Kalung, Kemaman, Terengganu and Shah Alam, District of Petaling, Selangor respectively is still pending as at the end of the financial year.

5. GOODWILL

	Group RM'000
Cost	
At 1 August 2008/31 July 2009/1 August 2009	36,166
Acquisition of subsidiaries	1,169
At 31 July 2010	37,335
Accumulated impairment losses	-
Carrying amount	
At 1 August 2008/31 July 2009/ 1 August 2009	36,166
At 31 July 2010	37,335

Impairment testing for cash-generating units containing goodwill
Goodwill has been allocated to the Group's cash generating units, operating in Malaysia, according to entities as follows:

	Group 2010 RM'000	Group 2009 RM'000
Kencana HL Sdn Bhd and its subsidiaries	35,396	35,396
Kencana Pinewell Sdn Bhd	770	770
Kencana Petroleum Ventures Sdn Bhd and its subsidiaries	1,169	-
	37,335	36,166

NOTES TO THE FINANCIAL STATEMENTS
(CONTINUED)

5. GOODWILL (CONTINUED)

Please refer to Note 6 to the financial statements for the details of Kencana HL Sdn. Bhd.'s and Kencana Petroleum Ventures Sdn Bhd's subsidiaries.

The carrying amount of goodwill was assessed for impairment annually. The recoverable amount of the goodwill is determined based on the value in use of the investments in subsidiaries. Based on the assessment of the value in use, the recoverable amount is higher than the carrying amount of the investments in the subsidiaries and accordingly, an allowance for impairment loss is not recognised.

Key assumptions used in value in use calculations
The recoverable amount was determined based on value in use calculations using cash flow projections approved by management covering a five year period. The key assumptions used for each of the cash-generating units' value in use calculations are as follows:

(i) **Gross margin**
The projected gross margin reflects the average historical gross margin, adjusted for projected market and economic conditions and internal resources efficiency.

(ii) **Growth rate**
A positive profit growth (based on existing and secured projects in 2010) is projected for the year ending 31 July 2011 onwards.

(iii) **Escalation of operating expenses**
Operating expenses are projected to increase in line with the increase in revenue and gross margin.

(iv) **Discount rate**
The discount rate used approximates the cash-generating units' average cost of funds.

Sensitivity to changes in assumptions
Management recognises that the changes in the economic condition as well as the possibility of new entrants could have a significant impact on growth rate assumptions. However, high capital costs could defer potential entrants.

6. INVESTMENTS IN SUBSIDIARIES

	Company 2010 RM'000	Company 2009 RM'000
Unquoted shares, at cost	120,390	110,000
Share options granted under ESOS	5,019	3,029
	125,409	113,029

Details of the subsidiaries are as follows:

Name of subsidiary	Principal activities	Country of incorporation	Effective ownership interest 2010 %	Effective ownership interest 2009 %
Kencana HL Sdn. Bhd and its subsidiaries	Integrated engineering and fabrication of oil and gas production facilities and drilling rigs	Malaysia	100	100
Kencana Marine Sdn. Bhd.	Operation and management of fabrication yard	Malaysia	100	100
Kencana Metering Sdn. Bhd.	Metering works, process skid systems and pipeline construction	Malaysia	100	100
Kencana Infrastructure Sdn. Bhd.	Specialised fabrication and infrastructure construction	Malaysia	100	100
Kencana Steelworks Sdn. Bhd.	Dormant	Malaysia	70	70
Kencana Torsco Sdn.Bhd. and its subsidiaries	Engineering, fabrication and construction works	Malaysia	100	100
Kencana Torsco Overseas Sdn. Bhd.	Provision of engineering, fabrication and construction works	Malaysia	100	100
Kencana Torsco Assets Sdn. Bhd.	Property investment	Malaysia	100	100
Sang Kee Feedmills Sdn. Bhd.	Dormant	Malaysia	-	100

NOTES TO THE FINANCIAL STATEMENTS (CONTINUED)

6. INVESTMENTS IN SUBSIDIARIES (CONTINUED)

Details of the subsidiaries are as follows: (continued)

Name of subsidiary	Principal activities	Country of incorporation	Effective ownership interest 2010 %	Effective ownership interest 2009 %
Kencana Bestwide Sdn. Bhd.	Engineering, Procurement, Construction (fabrication) and Commissioning ("EPCC"), design and engineering and project management	Malaysia	100	100
Kencana Pinewell Sdn. Bhd. @	Offshore and onshore construction support services, hook-up, commissioning, maintenance and de-commissioning services	Malaysia	100	100
Kencana Petroleum Ventures Sdn. Bhd. and its subsidiaries	Investment holding	Malaysia	100	100
Kencana Marine Drilling Sdn. Bhd. (formerly known as Kencana Mermaid Drilling Sdn. Bhd.)	Offshore drilling and drilling related services in the oil and gas industry	Malaysia	60	60
Kencana Nautilus Sdn. Bhd. (formerly known as Thrive Alliance Sdn. Bhd.) and its subsidiaries ^	Provision of marine transportation and support services	Malaysia	100	-
Gemia (Labuan) Pte. Ltd *	Owner and operator of an offshore support vessel	Malaysia	100	-
Teras-Kencana Ventures Sdn. Bhd. (formerly known as Teras Muhibah Sdn. Bhd.) **	Owner and operator of an offshore support vessel	Malaysia	67	27

6. INVESTMENTS IN SUBSIDIARIES (CONTINUED)

@ On 30 September 2009, the Company reorganised the shareholding of its indirect subsidiary, Kencana Pinewell Sdn. Bhd. ("KPW"). The entire equity interest of KPW comprising 500,000 ordinary shares of RM1.00 each was transferred to the Company from Kencana Bestwide Sdn. Bhd., a direct wholly-owned subsidiary of the Company for a purchase consideration of RM10,389,557. As a result of the transfer, KPW became a direct wholly-owned subsidiary of the Company.

^ On 4 February 2010, Kencana Petroleum Ventures Sdn. Bhd. ("KPV") acquired the entire issued and paid-up share capital of Thrive Alliance Sdn. Bhd. ("TASB") comprising 2 ordinary shares of RM1.00 each fully paid at par, making it a wholly-owned subsidiary of the Company. TASB has on 10 February 2010 changed its name to Kencana Nautilus Sdn. Bhd. ("KNSB").

* On 12 February 2010, KPV via its wholly-owned subsidiary, KNSB incorporated a wholly-owned subsidiary, Gemia (Labuan) Pte. Ltd. ("Gemia") in the Federal Territory of Labuan. The issued and paid-up share capital of Gemia is USD2.00 comprising 2 ordinary shares of USD1.00 each.

** On 6 August 2009, KPV entered into a Supplemental Agreement to subscribe for 162,000 new ordinary shares of RM1.00 each in Teras-Kencana Ventures Sdn. Bhd. ("TKV"). With the subscription, KPV's equity stake in TKV increased from 27% to 67%, resulting in TKV becoming a subsidiary of the Company. The entire equity interest of 67% held by KPV in TKV was transferred to its wholly-owned subsidiary, KNSB on 31 May 2010 (refer Note 7).

7. INVESTMENTS IN ASSOCIATES

	Group	
	2010 RM'000	2009 RM'000
Ordinary shares		
Unquoted shares		
- At cost	53,514	54,813
- Share of reserves	343	1,400
	53,857	56,213

NOTES TO THE FINANCIAL STATEMENTS
(CONTINUED)

7. INVESTMENTS IN ASSOCIATES (CONTINUED)

Details of the associates are as follows:

Name of company	Principal activities	Country	Effective ownership interest 2010 %	Effective ownership interest 2009 %
BWE	Provision of design and engineering services	Malaysia	30.0	30.0
MM	Provision of valve testing and maintenance services	Malaysia	30.0	30.0
Skidtec	Dormant	Malaysia	-	25.0
KMR Singapore	Provision of offshore drilling and related services in the oil and gas industry	Singapore	25.0	25.0
KMR Labuan	Leasing activities	Malaysia	25.0	25.0
MEOSSB	Operator of the offshore support vessels for the oil and gas industry	Malaysia	-	21.0
TKV	Owner and operator of an offshore support vessel	Malaysia	-	27.0

BWE	Best Wide Engineering (M) Sdn. Bhd.
MM	Matrix Maintenance Sdn. Bhd.
Skidtec	Skidtec (M) Sdn. Bhd.
KMR Singapore	Kencana Marine Rig 1 Pte. Ltd. (formerly known as Mermaid Kencana Rig 1 Pte. Ltd.)
KMR Labuan	Kencana Marine Rig 1 (Labuan) Pte. Ltd. (formerly known as Mermaid Kencana Rigs (Labuan) Pte. Ltd.)
MEOSSB	Malaysian Engineering & Oilfield Services Sdn. Bhd.
TKV	Teras-Kencana Ventures Sdn. Bhd. (formerly known as Teras Muhibah Sdn. Bhd.)

Note a
Skidtec (M) Sdn. Bhd. has during the financial year submitted an application with the Companies Commission of Malaysia to strike off its name pursuant to Section 308 of the Companies Act, 1965.

Note b
On 1 March 2010, KPV disposed of its investment in MEOSSB for a consideration of RM500,000, resulting in a loss on disposal of RM181,000.

Note c
On 6 August 2009, KPV entered into a Supplemental Agreement to subscribe for 162,000 new ordinary shares of RM1.00 each in TKV. With the subscription, KPV's equity stake in TKV increased from 27% to 67%, resulting in TKV becoming a subsidiary of the Company (refer Note 6).

7. INVESTMENTS IN ASSOCIATES (CONTINUED)

The summarised financial information of the associates are as follows:

2010	Total assets RM'000 100%	Total liabilities RM'000 100%	Revenue RM'000 100%	Net profit/ (loss) RM'000 100%
BWE	5,941	(2,893)	14,415	570
MM	4,761	(995)	3,017	163
KMR Singapore	373,990	(160,536)	-	(2,690)
KMR Labuan	22	(106)	-	(64)
	384,714	(164,530)	17,432	(2,021)
2009				
BWE	12,741	(10,136)	21,045	470
MM	4,638	(1,033)	3,588	470
Skidtec	47	(58)	-	(4)
KMR Singapore	297,419	(56,263)	-	(10)
KMR Labuan	-	-	-	-
MEOSSB	1,257	(337)	-	(215)
TKV	4,190	(8,028)	-	(340)
	320,292	(75,855)	24,633	371

The share of results was based on unaudited financial statements of the associates for the financial year ended 31 July 2009 and 2010.

NOTES TO THE FINANCIAL STATEMENTS
(CONTINUED)

8. INVESTMENTS IN JOINTLY CONTROLLED ENTITIES

	Group	
	2010 RM'000	2009 RM'000
At cost:		
Unquoted shares	*	*
Share of reserves	4	9
	4	9

* Denotes RM50

Details of the jointly controlled entities are as follows:

Company	Principal activities	Country of incorporation	Effective ownership interest 2010 %	Effective ownership interest 2009 %
Best Wide MCCS Sdn. Bhd.*@	Undertaking of engineering contracts and provision of related consultancy services	Malaysia	50	50
Red Sea Ventures Sdn. Bhd. and its subsidiary**@	Investment holding company and management services	Malaysia	-	50
R.S. Engineering Services & Contracting Co Ltd**@	Dormant	Sudan	-	35

@ Jointly controlled entities not audited by KPMG

* The share of results was based on the unaudited financial statements of the jointly controlled entity for the financial year ended 31 July 2009 and 2010.

** Red Sea Ventures Sdn. Bhd. has during the financial year submitted an application with the Companies Commission of Malaysia to strike off its name pursuant to Section 308 of the Companies Act, 1965.

9. INVESTMENT IN PREFERENCE SHARES

	Group	
	2010 RM'000	2009 RM'000 Restated
At cost:-		
Redeemable preference shares	1,352	4,187

10. OTHER INVESTMENTS

	Group	
	2010 RM'000	2009 RM'000
Unquoted shares in Malaysia, at cost	-	48
Quoted shares in Malaysia, at cost	62	62
Less: Accumulated impairment losses	(61)	(42)
	1	20
	1	68
Market value of shares quoted in Malaysia	1	20

11. INVENTORIES

	Group	
	2010 RM'000	2009 RM'000
Raw materials and consumables	27,311	28,293

NOTES TO THE FINANCIAL STATEMENTS
(CONTINUED)

12. RECEIVABLES, DEPOSITS AND PREPAYMENTS

	Note	Group 2010 RM'000	Group 2009 RM'000	Company 2010 RM'000	Company 2009 RM'000
Non-current					
Non-trade					
Amounts due from subsidiaries	a	-	-	306,472	78,210
Other receivables		300	-	-	-
		300	-	306,472	78,210
Current					
Trade					
Trade receivables	b	148,908	98,660	-	-
Amount due from contract customers	c	180,650	95,109	-	-
Amounts due from subsidiaries	d	-	-	19,000	8,000
Amounts due from associates	e	84,851	45,229	-	-
		414,409	238,998	19,000	8,000
Non-trade					
Other receivables		4,740	4,081	-	12
Deposits	f	112,316	1,141	66	53
Prepayments		5,580	2,167	1,201	590
Amounts due from associates	e	-	9,300	-	-
		122,636	16,689	1,267	655
		537,045	255,687	20,267	8,655
		537,345	255,687	326,739	86,865

Note a

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

Note b

Included in trade receivables of the Group are retention sums from contract customers of RM21,999,000 (2009 - RM8,473,000). These retention sums from contract customers are unsecured, interest free and are expected to be collected in accordance with the terms of the respective contract agreements.

12. RECEIVABLES, DEPOSITS AND PREPAYMENTS (CONTINUED)

Note b (continued)

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

	Group 2010 RM'000	Group 2009 RM'000
US Dollars	68,361	50,142
Singapore Dollars	178	137
Euro	163	-

Note c

	Group 2010 RM'000	Group 2009 RM'000
Aggregate costs incurred to date	1,878,941	3,040,888
Add: Attributable profits less foreseeable losses	284,870	376,160
	2,163,811	3,417,048
Less: Progress billings	(2,191,291)	(3,422,370)
	(27,480)	(5,322)
Amount due to contract customers (Note 20)	208,130	100,431
Amount due from contract customers	180,650	95,109

Included in amount due from contract customers is RM126,300,737 (2009: RM29,666,083) in relation to a tender assisted drilling rig project secured from an associated company of the Group.

Additions to aggregate costs incurred during the financial year include:

	Group 2010 RM'000	Group 2009 RM'000
Realised gain on foreign exchange	(555)	-
Rental of premises	908	1,307
Rental of staff quarters	341	607
Hiring of plant and equipment	9,511	35,103
Hiring of motor vehicles	481	1,102

NOTES TO THE FINANCIAL STATEMENTS (CONTINUED)

12. RECEIVABLES, DEPOSITS AND PREPAYMENTS (CONTINUED)

Note d
The amounts due from subsidiaries of the Company are interest free, unsecured and repayable on demand.

Note e
The amounts due from associates of the Group are interest free, unsecured and repayable on demand.

Note f
Included in deposits is the initial payment made to Mermaid Drilling (Singapore) Pte. Ltd. of RM101,128,800 for the acquisition of the remaining equity interest in Kencana Marine Drilling Sdn. Bhd. (formerly known as Kencana Mermaid Drilling Sdn. Bhd.), Kencana Marine Rig 1 Pte. Ltd. (formerly known as Mermaid Kencana Rig 1 Pte. Ltd.) and Kencana Marine Rig 1 (Labuan) Pte. Ltd. (formerly known as Mermaid Kencana Rigs (Labuan) Pte. Ltd. (refer to Note 34).

13. CASH AND CASH EQUIVALENTS

	Group		Company	
	2010 RM'000	2009 RM'000	2010 RM'000	2009 RM'000
Cash and bank balances	149,604	81,151	16,835	3,907
Deposits placed with licensed banks	72,786	172,742	10,245	7,438
	222,390	253,893	27,080	11,345

Included in deposits placed with licensed banks of the Group is RM25,633,000 (2009 - RM24,193,000) pledged to financial institutions for credit facilities granted to the Group and to the Company as disclosed in Note 18.

14. ASSETS CLASSIFIED AS HELD FOR SALE

Freehold land and certain buildings and structures and furniture and fittings held by the Group are presented as assets held for sale during the financial year following the commitment of the Group's management, to a plan to sell the assets. The sale was finalised on 13 September 2010 following the Sale and Purchase Agreement signed with a third party for a total consideration of RM3,980,000.

Group	Freehold land RM'000	Buildings and structures RM'000	Furniture and fittings RM'000	Total RM'000
Cost	750	3,404	36	4,190
Accumulated depreciation	(173)	(231)	(13)	(417)
Carrying amount	577	3,173	23	3,773

15. SHARE CAPITAL

	Amount 2010 RM'000	Number of shares 2010 '000	Amount 2009 RM'000	Number of shares 2009 '000
Authorised:				
Ordinary shares of RM0.10 each	200,000	2,000,000	200,000	2,000,000
Issued and fully paid:				
Ordinary shares of RM0.10 each				
At 1 August	90,296	902,956	90,200	902,000
Renounceable rights issue	36,416	364,163	-	-
Bonus issue	38,237	382,371	-	-
Issue of shares under Employees' Share Option Scheme ("ESOS")	848	8,478	96	956
At 31 July	165,797	1,657,968	90,296	902,956

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

During the year, the issued and paid-up share capital of the Company was increased by RM75,501,000 (2009 - RM96,000) by way of allotment and issue of shares.

Rights issue and bonus issue

(a) On 5 February 2010, the Company increased its issued and paid up share capital through the renounceable rights issue of 364,163,320 new ordinary shares of RM0.10 each ("rights shares"), at an issue price of RM0.50 per rights share on the basis of two (2) rights shares for every five (5) existing ordinary shares of RM0.10 each ("share") held in the Company;

(b) On 5 February 2010, following the completion of the rights issue, the Company increased its issued and paid up share capital through a bonus issue of 382,371,486 shares in the Company ("bonus shares") on the basis of three (3) bonus shares for every ten (10) existing shares (inclusive of the rights shares) held in the Company.

Exercise of employees' share options

During the financial year, a total of 1,230,000 new ordinary shares of RM0.10 each was issued at an exercise price of RM1.35 each, 6,162,800 new ordinary shares of RM0.10 each was issued at an exercise price of RM1.40 each, 60,000 new ordinary shares of RM0.10 each was issued at an exercise price of RM1.60 each and 1,025,671 new ordinary shares of RM0.10 each at an exercise price of RM0.84 each for cash pursuant to the exercise of employees' share options scheme of the Company.

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 shares except that the shares so allotted will not be entitled to any dividends, rights, allotments or other distributions of which is prior to the date of allotment of the new shares.

NOTES TO THE FINANCIAL STATEMENTS
(CONTINUED)

16. RESERVES

The movements of the reserves are shown in the Statement of Changes in Equity.

The descriptions of the 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.

17. EMPLOYEE BENEFITS

Share-based payments
An Employees' Share Option Scheme ("ESOS") was established and approved by the shareholders of the Company at an Extraordinary General Meeting held on 11 October 2006.

The following options were granted under the ESOS scheme of the Company to 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
06.12.2006	11,500,000	0.41	14.12.2007
06.12.2006	10,500,000	0.50	14.12.2008
10.04.2008	15,430,000	1.40*	14.11.2011
17.09.2008	2,800,000	1.35*	14.11.2011
21.05.2009	100,000	1.60*	14.11.2011
13.02.2010	4,171,000	1.27	14.11.2011
15.06.2010	880,714	1.30	14.11.2011

* Consequent to the rights and bonus issues, the exercise prices of RM1.40, RM1.35 and RM1.60 were adjusted to RM0.84, RM0.81 and RM0.96 respectively to reflect the effects of the rights and bonus issues.

17. EMPLOYEE BENEFITS (CONTINUED)

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

	Group Number of options		Company Number of options	
	2010 '000	2009 '000	2010 '000	2009 '000
At 1 August	16,040	15,430	928	1,455
Granted during the year	5,052	2,900	2,550	-
ESOS adjustment**	5,618	-	324	-
	26,710	18,330	3,802	1,455
Exercised during the year	(8,586)	(956)	(441)	(249)
Lapsed during the year	(314)	(1,334)	(30)	(278)
At 31 July	17,810	16,040	3,331	928

** ESOS adjustment refers to the effects of the rights and bonus issues for the ESOS options granted prior to 5 February 2010.

The options outstanding as at 31 July 2010 have an exercise price of RM0.81, RM0.84, RM0.96, RM1.27 and RM1.30 and remaining contractual life of within 1½ years.

During the financial year, 8,586,271 (2009 - 955,500) share options of the Company were exercised at the exercise prices of RM0.84, RM1.35, RM1.40 and RM1.60 (2009 – RM1.35 and RM1.40) per option. Of the 8,586,271 share options exercised, 8,478,471 share options were allotted and issued as ordinary shares of the Company. The related weighted average share price at the date of exercise was RM1.88 (2009 – RM1.80) per ordinary share.

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 used

	Granted in 2010	Granted in 2009	Granted in 2008
Fair value at grant date	RM0.34 – RM0.35	RM0.30 – RM0.62	RM0.37 – RM0.60
Exercise price	RM1.27 – RM1.30	RM1.35 – RM1.60	RM1.40
Expected volatility	32%	39%	50%
Option life	1-2 years	1 - 3 years	1 – 3 years
Risk-free interest rate	2.87% - 3.06%	3.99%	3.77% - 3.43%
Expected staff turnover	-	15%	15%
Expected dividend payout	5%	5%	-

The expected volatility reflects the assumption that the historical volatility is indicative of future trends and not necessary be the actual outcome. The expected option life is based on historical data, which may not necessarily be indicative of exercise patterns that may occur.

NOTES TO THE FINANCIAL STATEMENTS
(CONTINUED)

17. EMPLOYEE BENEFITS (CONTINUED)

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		Company	
	2010 RM'000	2009 RM'000	2010 RM'000	2009 RM'000
Total expense recognised as share-based payments	2,388	2,642	398	218

18. 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 28.

		Group		Company	
		2010 RM'000	2009 RM'000	2010 RM'000	2009 RM'000
Non-current					
Term loans	- secured	30,223	133,777	-	-
Hire purchase creditors		12,810	22,211	350	267
		43,033	155,988	350	267
Current					
Term loans	- secured	108,338	11,775	-	-
Bank overdrafts	- unsecured	2,013	179	-	-
Revolving credits	- unsecured	60,000	30,000	60,000	30,000
Bankers' acceptances	- unsecured	-	854	-	-
Hire purchase creditors		12,492	13,972	100	80
		182,843	56,780	60,100	30,080
		225,876	212,768	60,450	30,347

18. LOANS AND BORROWINGS (CONTINUED)

Terms and debt repayment schedule

Group		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
2010							
Term loans	- secured	2011-2015	138,561	108,338	20,732	9,336	155
Bank overdrafts	- unsecured	2011	2,013	2,013	-	-	-
Revolving credits	- unsecured	2011	60,000	60,000	-	-	-
			200,574	170,351	20,732	9,336	155
2009							
Term loans	- secured	2010 – 2014	145,552	11,775	21,591	58,793	53,393
Bank overdrafts	- unsecured	2010	179	179	-	-	-
Bankers' acceptances	- unsecured	2010	854	854	-	-	-
Revolving credits	- unsecured	2010	30,000	30,000	-	-	-
			176,585	42,808	21,591	58,793	53,393
Company							
2010							
Revolving credits	- unsecured	2011	60,000	60,000	-	-	-
2009							
Revolving credits	- unsecured	2010	30,000	30,000	-	-	-

NOTES TO THE FINANCIAL STATEMENTS (CONTINUED)

18. LOANS AND BORROWINGS (CONTINUED)

Hire purchase creditors

Hire purchase creditors are payable as follows:

Group	Gross 2010 RM'000	Interest 2010 RM'000	Principal 2010 RM'000	Gross 2009 RM'000	Interest 2009 RM'000	Principal 2009 RM'000
Less than one year	14,513	(2,021)	12,492	16,296	(2,324)	13,972
Between one and five years	14,767	(1,957)	12,810	25,906	(3,695)	22,211
	29,280	(3,978)	25,302	42,202	(6,019)	36,183
Company						
Less than one year	116	(16)	100	94	(14)	80
Between one and five years	407	(57)	350	314	(47)	267
	523	(73)	450	408	(61)	347

18.1 Term loans

At 31 July 2010 and 31 July 2009, the secured term loans of the subsidiaries are charged against the subsidiaries' buildings and structures (Note 3), leasehold land (Note 4) and offshore support vessel (Note 3). These term loans are subject to interest at rates ranging from 0.60% to 2.50% (2009 - 0.60% to 1.70%) per annum above the lenders' base lending rates and are repayable over 3 months to 6 years (2009 - 3 to 7 years).

18.2 Bank overdrafts

The unsecured bank overdrafts of the subsidiaries are subject to interest at rates of 0.75% (2009 - 1.5% to 2.0%) per annum above the lenders' base lending rates.

18.3 Revolving credits

The revolving credits of the Group and of the Company were subject to interest rate ranging from 1.0% to 2.5% (2009 – 1.75% to 2.5%) per annum above the lenders' cost of funds.

18.4 Hire purchase creditors

Hire purchase creditors of the Group and of the Company are subject to interest at flat rates ranging from 1.98% to 4.35% (2009 - 2.30% to 4.30%) and 3.25% (2009 – 3.52%) per annum respectively.

19. DEFERRED TAX LIABILITIES

Recognised deferred tax assets and liabilities

Deferred tax assets and liabilities are attributable to the following:

Group	Assets 2010 RM'000	Assets 2009 RM'000	Liabilities 2010 RM'000	Liabilities 2009 RM'000	Net 2010 RM'000	Net 2009 RM'000
Property, plant and equipment						
- Temporary differences	-	-	14,339	12,389	14,339	12,389
- Fair value adjustment in relation to acquisition of subsidiaries	-	-	13,403	13,536	13,403	13,536
Unabsorbed capital allowances	(480)	(480)	-	-	(480)	(480)
Provisions	(458)	-	-	-	(458)	-
Others	(464)	(598)	-	-	(464)	(598)
Tax (assets)/liabilities	(1,402)	(1,078)	27,742	25,925	26,340	24,847
Set off	1,328	1,078	(1,328)	(1,078)	-	-
Net tax (assets)/liabilities	(74)	-	26,414	24,847	26,340	24,847

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

Movement in temporary differences during the year

Group	At 1.8.2008 RM'000	Recognised in income statements (Note 24) RM'000	At 31.7.2009 RM'000	Recognised in income statements (Note 24) RM'000	At 31.7.2010 RM'000
Property, plant and equipment					
- temporary differences	9,486	2,903	12,389	1,950	14,339
- fair value adjustment in relation to acquisition of subsidiary	13,669	(133)	13,536	(133)	13,403
Unabsorbed capital allowances	(257)	(223)	(480)	-	(480)
Provisions	-	-	-	(458)	(458)
Others	(105)	(493)	(598)	134	(464)
	22,793	2,054	24,847	1,493	26,340

NOTES TO THE FINANCIAL STATEMENTS (CONTINUED)

20. PAYABLES AND ACCRUALS

	Note	Group 2010 RM'000	Group 2009 RM'000	Company 2010 RM'000	Company 2009 RM'000
Current					
Trade					
Trade payables	a	113,718	122,583	-	-
Amount due to contract customers (Note 12)		208,130	100,431	-	-
Contract advances	b	-	33,570	-	-
Amounts due to associates	c	1,462	798	-	-
		323,310	257,382	-	-
Non-trade					
Other payables		10,430	8,070	827	327
Accrued expenses		28,945	10,710	726	510
Amount due to subsidiaries	d	-	-	35,788	-
		39,375	18,780	37,341	837
		362,685	276,162	37,341	837

Note a

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

	Group 2010 RM'000	Group 2009 RM'000
US Dollars	39,303	22,653
Singapore Dollars	970	764
Euro	160	26
Pounds Sterling (GBP)	204	44

20. PAYABLES AND ACCRUALS (CONTINUED)

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

Note c
The amounts due to associates of the Group are interest free, unsecured and repayable on demand.

Note d
The amounts due to subsidiaries of the Company are interest free, unsecured and repayable on demand.

21. REVENUE AND COSTS OF SERVICES RENDERED

	Group		Company	
	2010 RM'000	2009 RM'000	2010 RM'000	2009 RM'000
Revenue				
Contract revenue	1,072,215	1,140,843	-	-
Chartered vessel income	17,470	-	-	-
Management fees	405	-	6,583	5,400
Dividend income	-	-	24,637	10,667
	1,090,090	1,140,843	31,220	16,067
Cost of services rendered				
Construction cost	840,770	932,621	-	-
Cost of services	9,523	-	-	-
	850,293	932,621	-	-

NOTES TO THE FINANCIAL STATEMENTS (CONTINUED)

22. OPERATING PROFIT

	Group		Company	
	2010 RM'000	2009 RM'000	2010 RM'000	2009 RM'000
Operating profit is arrived at after charging:				
Allowance for doubtful debts	1,506	2,640	-	-
Allowance for diminution in other investments	19	-	-	-
Auditors' remuneration				
- Audit services	320	260	30	30
- Other services by auditors	10	10	10	10
Amortisation of prepaid lease payments	744	683	-	-
Depreciation of property, plant and equipment	22,607	17,205	227	132
Loss on disposal of property, plant and equipment	114	-	76	1
Loss on disposal of an associate	181	-	-	-
Property, plant and equipment written off	393	86	131	2
Personnel expenses:				
- Contributions to Employees Provident Fund	6,574	5,709	298	280
- Wages, salaries and others	72,986	47,676	2,707	2,581
Net unrealised loss on foreign exchange	948	-	-	-
Rental of premises	1,154	819	163	163
Rental of equipment	1,592	691	15	15
Rental of vehicles	185	118	21	114
Rental of staff quarter	307	-	-	-
Share based payments	2,388	2,642	398	218
and after crediting:				
Rental income	393	672	-	-
Gain on disposal of property, plant and equipment	2,557	80	-	-
Gain on disposal of redeemable preference shares	2,274	-	-	-
Net unrealised gain on foreign exchange	-	25	-	-
Net realised gain on foreign exchange	416	1,349	-	-
Reversal of bad debts written off	-	41	-	-
Reversal of allowance for doubtful debts	1,833	577	-	-

23. KEY MANAGEMENT PERSONNEL COMPENSATION

	Group		Company	
	2010 RM'000	2009 RM'000	2010 RM'000	2009 RM'000
Directors:				
- Fees	180	165	180	165
- Contribution to Employees Provident Fund ("EPF")	494	431	149	60
- Remuneration	5,223	4,358	2,090	664
- Other short term employee benefits	36	27	-	-
	5,933	4,981	2,419	889

The Directors of the Company are the key management personnel for the Group with authority and responsibility for planning, directing and controlling the activities of the Group either directly or indirectly.

24. TAX EXPENSE

	Group		Company	
	2010 RM'000	2009 RM'000	2010 RM'000	2009 RM'000
Income tax expense				
Malaysia				
- current year	35,015	30,383	5,637	2,667
- (over)/under provision in prior year	(2,467)	626	-	38
	32,548	31,009	5,637	2,705
Foreign/withholding tax				
- current year	1,581	1,540	-	-
Deferred tax expense				
Origination of temporary differences	1,698	2,420	-	-
Over provision in prior year	(205)	(366)	-	-
	1,493	2,054	-	-
Total tax expense	35,622	34,603	5,637	2,705

NOTES TO THE FINANCIAL STATEMENTS
(CONTINUED)

24. TAX EXPENSE (CONTINUED)

	Group		Company	
	2010 RM'000	2009 RM'000	2010 RM'000	2009 RM'000
Reconciliation of tax expense				
Profit before tax	171,820	152,806	19,845	8,758
Income tax using Malaysian tax rate of 25%	42,955	38,201	4,961	2,190
Effect of different tax rate in subsidiaries*	(1,448)	-	-	-
Non-deductible expenses	3,982	4,478	676	477
Non-taxable income	(1,193)	-	-	-
Tax incentives **	(722)	(7,621)	-	-
Movement of unrecognised deferred tax	125	(286)	-	-
Utilisation of reinvestment allowance	(6,971)	(3,262)	-	-
Withholding tax	1,581	1,540	-	-
Crystallisation of deferred tax liabilities on fair value adjustment in relation to acquisition of subsidiaries	(133)	(133)	-	-
Others	118	1,426	-	-
	38,294	34,343	5,637	2,667
Under/(Over) provision in prior year				
- Malaysia tax expense	(2,467)	626	-	38
- Deferred tax expense	(205)	(366)	-	-
Tax expense	35,622	34,603	5,637	2,705

* The corporate tax expense for Gemia (Labuan) Pte. Ltd., a subsidiary of the Company is RM20,000 based on the Labuan Business Activity Tax Act, 1990 for a corporation incorporated in the Federal Territory of Labuan.

** Based on the Malaysia-Thailand Income Tax Treaty Protocol (1995), a 50% tax reduction is allowed on income derived from Exploration and Exploitation of Petroleum in the Malaysia - Thailand Joint Development Area (MTJDA).

25. DIVIDENDS

Dividends recognised by the Company are:

	per share (single tier)	Total amount RM'000	Date of payment
2010			
First and final 2009 ordinary	5%	4,550	15 January 2010
2009			
First and final 2008 ordinary	5%	4,510	10 March 2009

Proposed first and final dividend for the financial year ended 31 July 2010

The Directors recommended a first and final single tier dividend of 5.00% per ordinary share of RM0.10 each totalling RM8,289,844 subject to the approval of the shareholders at the forthcoming Annual General Meeting in respect of the financial year ended 31 July 2010, based on the issued and paid-up share capital of 1,657,968,777 ordinary shares of RM0.10 each as at 31 July 2010

26. 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	
	2010 RM'000	2009 RM'000
Profit for the year attributable to ordinary equity holders	136,166	118,203

NOTES TO THE FINANCIAL STATEMENTS
(CONTINUED)

26. EARNINGS PER ORDINARY SHARE (CONTINUED)

Weighted average number of ordinary shares

	Group	
	2010 RM'000	2009 RM'000 Restated**
Weighted average number of ordinary share in issue*	1,264,974	1,172,600
Effect of ordinary shares issued under ESOS	5,550	200
	1,270,524	1,172,800
Basic earnings per ordinary share (in sen)	10.72	10.08

Diluted earnings per share

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

	Group	
	2010 RM'000	2009 RM'000 Restated**
Profit for the year attributable to ordinary equity holders	136,166	118,203
Weighted average number of ordinary shares (diluted)		
Weighted average number of ordinary shares in issue* (as per above)	1,270,524	1,172,800
Effect of share options in issue	7,439	5,051
	1,277,963	1,177,851

26. EARNINGS PER ORDINARY SHARE (CONTINUED)

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	
	2010	2009
Diluted earnings per ordinary share (in sen)	10.66	10.04

* The weighted average number of ordinary shares in issue as at 31 July 2010 is arrived at after accounting for the effect of rights issue and bonus issue of ordinary shares, which was completed on 5 February 2010.

** The comparative figures for basic and diluted earnings per share have been restated to account for the effects of the bonus issue, which were completed on 5 February 2010.

27. SEGMENTAL REPORTING

Operating segments

The Group has five reportable segments, as described below, which represent the Group's strategic business units. The strategic business units offer different services and are managed separately because they require different technical expertise and marketing strategies. For each of the strategic business units, the Group Chief Executive Officer reviews internal management reports on at least a quarterly basis. The following summary describes the operations in each of the Group's reportable segments:

- Investment holding
- Engineering, procurement, construction (fabrication), installation and commissioning ("EPCIC") and marine engineering
- Engineering, procurement, construction and commissioning ("EPCC"), design engineering and project management
- Hook-up and commissioning
- Offshore drilling and provision of marine transportation and support services

Performance is measured based on segment profit before tax, interest, depreciation and amortisation, as included in the internal management reports that are reviewed by the Group Chief Executive Officer, who is the Group's chief operating decision maker.

Segment profit is used to measure performance as management believes that such information is the most relevant in evaluating the results of the segments.

Inter-segment pricing is determined based on negotiated terms.

Segment assets

The total of segment assets is measured based on all assets (including goodwill) of a segment, as included in the internal management reports that are reviewed by the Group Chief Executive Officer. Segment total assets is used to measure the return of assets of each segment.

Segment liabilities

The total of segment liabilities is measured based on all liabilities of a segment, as included in the internal management reports that are reviewed by the Group Chief Executive Officer.

Geographical segments

The Group mainly operates in Malaysia. Accordingly information by geographical segment is not presented.

NOTES TO THE FINANCIAL STATEMENTS (CONTINUED)

27. SEGMENTAL REPORTING (CONTINUED)

Major customers

Revenue of approximately RM340,921,000 (2009: RM366,628,000) representing 31% (2009: 32%) of the Group revenue are derived from two external customers from the following segments:-

	Group 2010 RM'000	Group 2009 RM'000
EPCIC and marine engineering	300,447	366,628
Hook-up and commissioning	40,474	-
	340,921	366,628

2010 Business segments	Investment holding RM'000	EPCIC & marine engineering RM'000	EPCC, design engineering & project management RM'000	Hock up & commissio-ning RM'000	Offshore drilling & provision of marine transporta-tion & support services RM'000	Total RM'000	Elimination RM'000	Consolidated RM'000
Total external revenue	-	1,042,478	20,921	8,816	17,875	1,090,090	-	1,090,090
Inter-segment revenue	31,220	12,149	8,968	139,961	2,514	194,812	(194,812)	-
Total segment revenue	31,220	1,054,627	29,889	148,777	20,389	1,284,902	(194,812)	1,090,090
Finance costs	(2,093)	(5,660)	(62)	(147)	(3,514)	(11,476)	-	(11,476)
Interest income	793	3,197	1,090	47	27	5,154	-	5,154
Depreciation and amortisation	(227)	(17,640)	(743)	(913)	(3,317)	(22,840)	(511)	(23,351)
Share of profit/(loss) of associates	-	-	187	-	(1,032)	(845)	-	(845)
Share of loss of jointly controlled entities	-	-	(5)	-	-	(5)	-	(5)
Tax expense	(5,637)	(27,713)	(1,633)	(6,616)	(97)	(41,696)	6,074	(35,622)
Segment results	14,208	110,915	16,174	19,849	3,550	164,696	(28,498)	136,198
Segment assets	481,414	811,071	101,367	101,203	367,808	1,862,863	(487,767)	1,375,096
Included in the measurement of segment assets are:								
Investments in associates	-	-	2,009	-	51,848	53,857	-	53,857
Investments in jointly controlled entities	-	-	4	-	-	4	-	4
Capital expenditure	2,000	57,453	1,850	17,768	129,134	208,205	-	208,205
Segment liabilities	97,791	484,686	12,926	75,370	355,074	1,025,847	(406,136)	619,711

27. SEGMENTAL REPORTING (CONTINUED)

2009 Business segments	Investment holding RM'000	EPCIC & marine engineering RM'000	EPCC, design engineering & project management RM'000	Offshore drilling & provision of marine transportation & support services RM'000	Total RM'000	Elimination RM'000	Consolidated RM'000
Total external revenue	-	1,052,568	88,275	-	1,140,843	-	1,140,843
Inter-segment revenue	16,067	10,618	22,726	-	49,411	(49,411)	-
Total segment revenue	16,067	1,063,186	111,001	-	1,190,254	(49,411)	1,140,843
Finance costs	(837)	(8,831)	(98)	(676)	(10,442)	-	(10,442)
Interest income	107	3,080	882	3	4,072	-	4,072
Depreciation and amortisation	(132)	(16,349)	(881)	(14)	(17,376)	(512)	(17,888)
Share of profit/(loss) of associates	-	-	283	(142)	141	-	141
Share of loss of jointly controlled entities	-	-	(10)	-	(10)	-	(10)
Tax expense	(2,705)	(29,980)	(4,681)	(37)	(37,403)	2,800	(34,603)
Segment results	6,053	107,980	18,481	(487)	132,027	(13,824)	118,203
Segment assets	12,954	696,773	107,817	76,233	893,777	51,164	944,941
Included in the measurement of segment assets are:							
Investments in associates	-	-	1,822	54,391	56,213	-	56,213
Investments in jointly controlled entities	-	-	9	-	9	-	9
Capital expenditure	759	52,504	1,383	89	54,735	-	54,735
Segment liabilities	31,185	423,684	13,857	38,793	507,519	8,505	516,024

NOTES TO THE FINANCIAL STATEMENTS
(CONTINUED)

28. FINANCIAL INSTRUMENTS

Financial risk management objectives and policies
Exposure to credit, liquidity, interest rate and foreign currency risks arises in the normal course of the Group's 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, approximately 38% (2009: 23%) of the Group's trade receivables were due from four major customers with good credit history with the Group. 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 fabrication 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 2010	Effective interest rates %	Total RM'000	Less than 1 year RM'000
Financial assets			
Deposits placed with licensed banks	2.50	72,786	72,786
Financial liabilities			
Secured term loans	4.57	138,561	138,561
Bank overdrafts - unsecured	3.90	2,013	2,013
Revolving credits - unsecured	4.50	60,000	60,000
		200,574	200,574

28. FINANCIAL INSTRUMENTS

Group 2009	Effective interest rates %	Total RM'000	Less than 1 year RM'000
Financial assets			
Deposits placed with licensed banks	2.50	172,742	172,742
Financial liabilities			
Secured term loans	4.95	145,552	145,552
Bank overdrafts - unsecured	3.90	179	179
Bankers' acceptances - unsecured	3.96	854	854
Revolving credits - unsecured	5.25	30,000	30,000
		176,585	176,585
Company			
2010			
Financial assets			
Deposits placed with licensed banks	2.50	10,245	10,245
Financial liabilities			
Revolving credits - unsecured	4.50	60,000	60,000
2009			
Financial assets			
Deposits placed with licensed banks	2.50	7,438	7,438
Financial liabilities			
Revolving credits - unsecured	5.00	30,000	30,000

NOTES TO THE FINANCIAL STATEMENTS
(CONTINUED)

28. 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, SG Dollars, 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 assets and liabilities carried on the balance sheet as at 31 July are represented in the following table:

Group	2010 Carrying amount RM'000	2010 Fair value RM'000	2009 Carrying amount RM'000	2009 Fair value RM'000
Financial assets				
Quoted shares - long term	1	1	20	20
Unquoted shares - long term	-	-	48	*
Other receivables - long term	300	300	-	-
Financial liabilities				
Secured term loans - USD	17,496	15,943	-	-
- RM	121,065	117,822	145,552	127,255

* It was not practicable to estimate the fair value of non-current unquoted shares because of the lack of quoted market prices and the inability to estimate the fair value without incurring excessive costs.

The fair value of quoted shares is their quoted market price at the balance sheet date.

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

It is not possible to establish the fair value of the amounts due from subsidiaries as the amounts are not repayable within the period of twelve months and thereafter has no fixed terms of repayment.

29. CAPITAL COMMITMENTS

	Group	
	2010 RM'000	2009 RM'000
Property, plant and equipment		
Contracted but not provided for in the financial statements	22,195	45,973
Approved but not contracted for	-	175,200

30. CONTINGENT LIABILITIES

	Group	
	2010 RM'000	2009 RM'000
Guarantees issued by financial institutions in favour of third parties	1,500	1,500

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 associate of Kencana Bestwide Sdn. Bhd.

Litigation

A claimant filed Summons in the Kuala Lumpur High Court on 22 August 2008 against the subsidiary as the second defendant for inter-alia a sum of RM1,731,388, interest payment of RM1,131,635, damages and other costs being outstanding payment due and owing by the subsidiary for work done and services rendered by the claimant and wrongful termination by the subsidiary of the claimant as a sub-contractor for the subsidiary. The subsidiary, through its solicitors, has filed a defence and served the same on the claimant's solicitors.

The Court has on 2 March 2010, allowed the summary claim by the claimant which amounted to RM298,302 and has requested for additional evidence with respect to the other summary claim amounting to RM301,451. Management, on a prudent basis, has made a provision of RM600,000 in the subsidiary's books in relation to the total claim of RM599,753, excluding interest. No provision has been made for the interest claim as the management is of the opinion that the likelihood of the crystalisation of a significant liability is remote.

The claimant, the subsidiary and the first defendant engaged in an out-of-court global settlement negotiation to the suit. As at 28 October 2010, the parties reached a settlement for the dispute with a settlement sum of RM1.1 million payable to the claimant by both the first defendant and the subsidiary. The subsidiary's contribution to the settlement is RM332,332. The parties are executing a tripartite settlement agreement for the suit.

NOTES TO THE FINANCIAL STATEMENTS (CONTINUED)

31. 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 6), associates (Note 7), joint ventures (Note 8) and its Directors.

The significant related party transactions of the Group and of the Company, other than key management personnel compensation, are as follows:

	Transaction amount for the year ended 31 July	
Company	**2010 RM'000**	**2009 RM'000**
Significant transactions with subsidiaries		
Gross dividend income receivable	24,637	10,667
Management fees receivable	6,583	5,400
Advances to subsidiaries	(228,262)	(14,146)
Group		
Company in which Dato' Mokhzani bin Mahathir and/or Yeow Kheng Chew have interest:		
Stamsteel Sdn. Bhd.		
- Progress billings receivable	-	2,051
- Contract cost payable	-	(632)
Auto Eurokars Sdn. Bhd.		
- Acquisition of property, plant and equipment	(1,838)	-

31. RELATED PARTIES (CONTINUED)

Significant transactions with subsidiaries (continued)

Group (continued)	**Transaction amount for the year ended 31 July**	
	2010 RM'000	**2009 RM'000**
Associates		
Best Wide Engineering (M) Sdn. Bhd.		
- Progress billings receivable	12,731	17,730
- Rental income receivable	12	12
- Subcontract costs payable	(12,440)	(9,833)
Matrix Maintenance Sdn. Bhd.		
- Progress billings receivable	101	16
- Subcontract costs payable	(216)	(377)
Kencana Marine Rig 1 Pte Ltd (formerly known as Mermaid Kencana Rig 1 Pte. Ltd.)		
- Progress billings receivable	31,333	162,395
- Advances receivable	54,718	-
Jointly controlled-entities		
Best Wide MCCS Sdn. Bhd.		
- Progress billings receivable	-	356
- Subcontract costs payable	-	(4,982)

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

There are no allowances for doubtful receivables made and no bad debts or doubtful receivables recognised for the financial years ended 31 July 2009 and 2010 in respect of the above related party balances except for the allowances for doubtful receivables made for Stamsteel Sdn. Bhd. amounting to RM1.03 million during the financial year ended 31 July 2009.

The outstanding net amounts due from/(to) subsidiaries, associates, and jointly controlled entities as at 31 July are disclosed in Note 12 and Note 20 respectively.

NOTES TO THE FINANCIAL STATEMENTS
(CONTINUED)

32. ACQUISITIONS OF SUBSIDIARY

Business combination

On 6 August 2009, the Group entered into a Supplemental Agreement to acquire an additional 40% of the equity interest in Teras-Kencana Ventures Sdn. Bhd. ("TKV") (formerly known as Teras Muhibah Sdn. Bhd.) for a purchase consideration RM173,000 satisfied in cash. With the acquisition, the Group's equity stake in TKV increased from 27% to 67%, resulting in TKV becoming a subsidiary of the Group. The total consideration paid by the Group for the 67% equity stake of TKV amounted to RM940,000. TKV is involved in the leasing of an offshore support vessel.

The Group had on 4 February 2010 acquired the entire issued and paid-up share capital of Thrive Alliance Sdn. Bhd. ("TASB") comprising 2 ordinary shares of RM1.00 each fully paid at par, making it a wholly-owned subsidiary of the Group. TASB has on 10 February 2010 changed its name to Kencana Nautilus Sdn. Bhd. ("KNSB").

During the period from the respective acquisition dates to 31 July 2010, TKV and KNSB contributed a loss of RM209,000 and a profit of RM6,063,000 respectively, to the Group.

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

	Pre-acquisition carrying amounts RM'000	Fair value adjustments RM'000	Recognised values on acquisition RM'000
Receivables, deposits and prepayments	4,461	-	4,461
Cash and cash equivalents	2	-	2
Payables and accruals	(4,692)	-	(4,692)
Net identifiable assets and liabilities	(229)	-	(229)
Investment in associate			(767)
Goodwill on acquisition			1,169
Consideration paid, satisfied in cash			173
Cash acquired			(2)
Net cash outflow			171

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

32. ACQUISITIONS OF SUBSIDIARY (CONTINUED)

Effect of acquisition

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

	2010 RM'000
Income statement	
Revenue	19,984
Cost of service rendered	(9,523)
Gross profit	10,461
Other income	165
Administrative expenses	(2,514)
Results from operating activities	8,112
Finance costs	(2,167)
Profit before tax	5,945
Taxation	(91)
Profit after tax	5,854
Increase in the Group's profit for the financial year	5,854
Balance sheet	
Non-current assets	124,417
Current assets	11,141
Current liabilities	(99,660)
Net asset acquired	35,898
Goodwill on acquisition	1,169
Increase in Group's net assets at the end of financial year	37,067

NOTES TO THE FINANCIAL STATEMENTS (CONTINUED)

33. SIGNIFICANT EVENT

Renounceable Rights Issue and Bonus Issue

(a) On 5 February 2010, the Company increased its issued and paid up share capital through the renounceable rights issue of 364,163,320 new ordinary shares of RM0.10 each ("rights shares"), at an issue price of RM0.50 per rights share on the basis of two (2) rights shares for every five (5) existing ordinary shares of RM0.10 each ("share") held in the Company;

(b) On 5 February 2010, following the completion of the rights issue, the Company increased its issued and paid up share capital through a bonus issue of 382,371,486 shares in the Company ("bonus shares") on the basis of three (3) bonus shares for every ten (10) existing shares (inclusive of the rights shares) held in the Company.

The approval for the listing of and quotation for the renounceable rights issue and bonus issue was granted by Bursa Malaysia Securities Berhad vide an approval letter dated 20 November 2009. The above proposals were approved by the shareholders at an Extraordinary General Meeting held on 10 December 2009.

Change in the composition of the Group

On 30 September 2009, the Company reorganised the shareholding of its indirect subsidiary, Kencana Pinewell Sdn. Bhd. ("KPW"). The entire equity interest of KPW comprising 500,000 ordinary shares of RM1.00 each was transferred to the Company from Kencana Bestwide Sdn. Bhd., a direct wholly-owned subsidiary of the Company. As a result of the transfer, KPW became a direct wholly-owned subsidiary of the Company.

34. SUBSEQUENT EVENT

Acquisition of companies from Mermaid Drilling (Singapore) Pte Ltd ("MDS")

Kencana Petroleum Ventures Sdn. Bhd. ("KPV"), a wholly-owned subsidiary of the Company had on 21 June 2010 executed three (3) separate conditional sale and purchase agreements ("SPA") for the acquisition by KPV from MDS the entire equity interest held by MDS in the following companies:-

(i) 51,000,000 ordinary shares of USD1.00 each representing 75% equity interest in Kencana Marine Rig 1 Pte. Ltd. (formerly known as Mermaid Kencana Rig 1 Pte. Ltd.) ("KMR Singapore") for the purchase consideration of USD43,637,497;

(ii) 40,000 ordinary shares of RM1.00 each representing 40% equity interest in Kencana Marine Drilling Sdn. Bhd. (formerly known as Kencana Mermaid Drilling Sdn. Bhd.) ("KMD") for the purchase consideration of USD12,500; and

(iii) 3 ordinary shares of USD1.00 each representing 75% equity interest in Kencana Marine Rig 1 (Labuan) Pte. Ltd. (formerly known as Mermaid Kencana Rigs (Labuan) Pte. Ltd.) ("KMR Labuan") for the purchase consideration of USD3.

In addition to the purchase consideration for KMR Singapore, KMD and KMR Labuan totalling USD43,650,000 above, KPV paid MDS an amount of USD22,950,000 for the settlement of intercompany loans and other debts in the above companies.

The acquisitions were approved by the shareholders at the Extraordinary General Meeting held on 26 July 2010. The acquisitions were completed on 5 August 2010.

Acquisition of Kencana Torsco Sdn Bhd by Kencana Petroleum Berhad

The Company had on 1 August 2010 reorganised the shareholding of its indirect subsidiary, Kencana Torsco Sdn. Bhd. The entire equity interest of Kencana Torsco Sdn. Bhd. comprising 10,000,000 ordinary shares of RM1.00 each has been transferred to the Company from Kencana HL Sdn. Bhd., a wholly owned subsidiary. As a result of the transfer, Kencana Torsco Sdn. Bhd. became a direct wholly-owned subsidiary of the Company.

35. COMPARATIVE FIGURES

Certain comparative figures have been reclassified to conform with current year's presentation.

	Group	
	As restated RM'000	As previously stated RM'000
Balance sheets		
Investment in preference shares	4,187	-
Receivables, deposits and prepayments	255,687	259,874
Notes to financial statements		
Note 12 – Receivables, deposits and prepayments		
Other receivables	4,081	8,268

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 88 to 151 are drawn up in accordance with Financial Reporting Standards and the Companies Act, 1965 in Malaysia so as to give a true and fair view of the financial position of the Group and of the Company as of 31 July 2010 and of their financial performance and cash flows for the year then ended.

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

Dato' Mokhzani bin Mahathir

Chong Hin Loon

Kuala Lumpur,

Date: 28 October 2010

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 88 to 151 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 above named in Kuala Lumpur on 28 October 2010.

Yeow Kheng Chew

Before me:

INDEPENDENT AUDITORS' REPORT
TO THE MEMBERS OF KENCANA PETROLEUM BERHAD

Report on the Financial Statements

We have audited the financial statements of Kencana Petroleum Berhad, which comprise the balance sheets as at 31 July 2010 of the Group and of the Company, and the income statements, statements of changes in equity and cash flow statements of the Group and of the Company for the year then ended, and a summary of significant accounting policies and other explanatory notes, as set out on pages 88 to 151.

Directors' Responsibility for the Financial Statements
The Directors of the Company are responsible for the preparation and fair presentation of these financial statements in accordance with Financial Reporting Standards and the Companies Act, 1965 in Malaysia. This responsibility includes: designing, implementing and maintaining internal control relevant to the preparation and fair presentation of financial statements that are free from material misstatement, whether due to fraud or error; selecting and applying appropriate accounting policies; and making accounting estimates that are reasonable in the circumstances.

Auditors' Responsibility
Our responsibility is to express an opinion on these financial statements based on our audit. We conducted our audit in accordance with approved standards on auditing in Malaysia. Those standards require that we comply with ethical requirements and plan and perform the audit to obtain reasonable assurance whether the financial statements are free from material misstatement.

An audit involves performing procedures to obtain audit evidence about the amounts and disclosures in the financial statements. The procedures selected depend on our judgment, including the assessment of risks of material misstatement of the financial statements, whether due to fraud or error. In making those risk assessments, we consider internal control relevant to the Company's preparation and fair presentation of the financial statements in order to design audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the Company's internal control. An audit also includes evaluating the appropriateness of accounting policies used and the reasonableness of accounting estimates made by the Directors, as well as evaluating the overall presentation of the financial statements.

We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our audit opinion.

Opinion
In our opinion, the financial statements have been properly drawn up in accordance with Financial Reporting Standards and the Companies Act, 1965 in Malaysia so as to give a true and fair view of the financial position of the Group and of the Company as of 31 July 2010 and of their financial performance and cash flows for the year then ended.

INDEPENDENT AUDITORS' REPORT (CONTINUED)
TO THE MEMBERS OF KENCANA PETROLEUM BERHAD

Report on Other Legal and Regulatory Requirements

In accordance with the requirements of the Companies Act, 1965 in Malaysia, we also report the following:

a) In our opinion, the accounting and other records and the registers required by the Act to be kept by the Company and its subsidiaries have been properly kept in accordance with the provisions of the Act.

b) We are satisfied that the accounts 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 financial statements of the Group and we have received satisfactory information and explanations required by us for those purposes.

c) Our audit reports on the accounts of the subsidiaries did not contain any qualification or any adverse comment made under Section 174(3) of the Act.

Other Matters

This report is made solely to the members of the Company, as a body, in accordance with Section 174 of the Companies Act, 1965 in Malaysia and for no other purpose. We do not assume responsibility to any other person for the content of this report.

KPMG
Firm Number: AF 0758
Chartered Accountants

Ahmad Nasri Abdul Wahab
Approval Number: 2919/03/12(J)
Chartered Accountant

Petaling Jaya,

Date: 28 October 2010

ANALYSIS OF SHAREHOLDINGS
AS AT 20 OCTOBER 2010

Authorised Share Capital	:	RM200,000,000.00 divided into 2,000,000,000 ordinary shares of RM0.10 each
Issued and fully paid-up	:	RM165,854,557.50 divided into 1,658,545,575 ordinary shares of RM0.10 each
Type of Shares	:	Ordinary shares of RM0.10 each
No. of Shareholders	:	13,232
Voting Rights	:	One vote per ordinary share

DISTRIBUTION OF SHAREHOLDINGS

Size of Holdings	No of Holders	%	No. of Shares	%
Less than 100	244	1.84	7,303	0.00
100 – 1,000	900	6.80	669,291	0.04
1,001 - 10,000	8,784	66.38	40,499,119	2.44
10,001 - 100,000	2,795	21.12	83,366,338	5.03
100,001 to less than 5% of issued shares	504	3.82	888,346,193	53.56
More than 5% of issued shares	5	0.04	645,657,331	38.93
Total	**13,232**	**100.00**	**1,658,545,575**	**100.00**

LIST OF THIRTY (30) LARGEST SHAREHOLDERS

	Name of Shareholders	No. of Shares	% of Shares
1.	Khasera Baru Sdn. Bhd.	184,480,731	11.13
2.	AMSEC Nominees (Tempatan) Sdn. Bhd. Pledged Securities Account - AmBank (M) Berhad for Khasera Baru Sdn. Bhd.	133,366,400	8.04
3.	AMSEC Nominees (Tempatan) Sdn. Bhd. Pledged Securities Account - AmBank (M) Berhad for Khasera Baru Sdn. Bhd.	120,916,200	7.29
4.	MAYBAN Nominees (Tempatan) Sdn. Bhd. Kuwait Finance House (Malaysia) Berhad for Khasera Baru Sdn. Bhd. (Glossy H Ltd)	119,975,000	7.24
5.	Chong Hin Loon	86,919,000	5.24
6.	Kumpulan Wang Persaraan (Diperbadankan)	68,453,976	4.13
7.	Employees Provident Fund Board	66,376,200	4.00
8.	AMMB Nominees (Tempatan) Sdn. Bhd. AmBank (M) Berhad for Khasera Baru Sdn. Bhd.	48,779,300	2.94
9.	HSBC Nominees (Asing) Sdn. Bhd. Exempt an for Credit Suisse (SG BR-TST-ASING)	45,749,380	2.76
10	AmanahRaya Trustees Berhad Skim Amanah Saham Bumiputera	31,916,000	1.92

ANALYSIS OF SHAREHOLDINGS (CONTINUED)
AS AT 20 OCTOBER 2010

LIST OF THIRTY (30) LARGEST SHAREHOLDERS

	Name of Shareholders	No. of Shares	% of Shares
11.	SBB Nominees (Tempatan) Sdn. Bhd. Employees Provident Fund Board	21,495,662	1.30
12.	AMSEC Nominees (Tempatan) Sdn. Bhd. Amtrustee Berhad for CIMB Islamic Dali Equity Fund (UT-CIMB-DALI)	18,478,430	1.11
13.	HLB Nominees (Tempatan) Sdn. Bhd. Pledged Securities Account for Khasera Baru Sdn. Bhd. (SIN 90927-4)	18,178,100	1.10
14.	Best Wide Holdings Sdn. Bhd.	17,690,400	1.07
15.	AmanahRaya Trustees Berhad Amanah Saham Didik	15,668,800	0.94
16.	Citigroup Nominees (Tempatan) Sdn. Bhd. Exempt an for Prudential Fund Management Berhad	12,905,900	0.78
17.	SBB Nominees (Tempatan) Sdn. Bhd. Kumpulan Wang Persaraan (Diperbadankan)	12,620,916	0.76
18.	Yeow Kheng Chew	12,285,000	0.74
19.	Ir. Cher Lee Kiat	11,815,170	0.71
20.	AMSEC Nominees (Tempatan) Sdn. Bhd. AmBank (M) Berhad (Hedging)	11,151,200	0.67
21.	Valuecap Sdn. Bhd.	10,199,930	0.62
22.	Richard Mah Foo Kheong	10,000,000	0.60
23.	AllianceGroup Nominees (Tempatan) Sdn. Bhd. Pheim Asset Management Sdn. Bhd. for Employees Provident Fund	9,593,000	0.58
24.	Chong Hin Loon	8,558,300	0.52
25.	AmanahRaya Trustees Berhad Public Islamic Optimal Growth Fund	8,082,000	0.49
26.	HSBC Nominees (Asing) Sdn. Bhd. HSBC Bk Plc for Framlington Emerging Markets (RBS as Trustee)	7,800,340	0.47
27.	CIMB Group Nominees (Tempatan) Sdn. Bhd. Amtrustee Berhad for CIMB Islamic Dali Equity Theme Fund	7,649,066	0.46
28.	AmanahRaya Trustees Berhad Public Islamic Select Treasures Fund	7,597,274	0.46
29.	Dato' Mokhzani Bin Mahathir	7,553,000	0.46
30.	AMSEC Nominees (Tempatan) Sdn. Bhd. Pledged Securities Account – AmBank (M) Berhad for Khasera Baru Sdn. Bhd.	7,000,000	0.42

SUBSTANTIAL SHAREHOLDERS

Name of Shareholders	Direct Interest No. of Shares	%	Indirect Interest No. of Shares	%
Khasera Baru Sdn. Bhd.	632,695,733	38.15	0	0
Dato' Mokhzani Bin Mahathir	7,553,000	0.46	632,695,733[i]	38.15
Chong Hin Loon	95,477,300	5.76	0	0
Employees Provident Fund Board	124,654,562	7.52	0	0

Note:-

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

DIRECTORS' SHAREHOLDINGS

Directors	Direct Interest No. of Shares	%	Indirect Interest No. of Shares	%
Tan Sri Nik Mohamed Bin Nik Yaacob	0	0	0	0
Dato' Mokhzani Bin Mahathir	7,553,000	0.46	632,695,733[i]	38.15
Chong Hin Loon	95,477,300	5.76	0	0
Yeow Kheng Chew	13,850,200	0.84	0	0
Ir. Cher Lee Kiat	11,815,170	0.71	29,502,612[ii]	1.78
Azmi Bin Ismail	455,000	0.03	0	0
Syed Zaid Bin Syed Jaafar Albar	0	0	0	0
Mohd Adzahar Bin Abdul Wahid	0	0	0	0
Tunku Dato' Mahmood Fawzy Bin Tunku Muhiyiddin	0	0	0	0

Note:-

[i] Deemed interested by virtue of his shareholding in Khasera Baru Sdn. Bhd. pursuant to Section 6A of the Act.

[ii] Deemed interested by virtue of his shareholding in Best Wide Holdings Sdn. Bhd. and his spouse's shareholding in the Company pursuant to Section 6A and Section 134 of the Act.

LIST OF PROPERTIES
AS AT 31 JULY 2010

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 Lumut, Daerah Manjung, 32000 Sitiawan, Perak Darul Ridzuan, Malaysia	Leasehold/ 13 March 2096	470,884	Fabrication Yard	4,492	Not Applicable	1999
Plot D-8, Lumut Port Industrial Park, Kampung Acheh, Mukim Lumut, Daerah Manjung, 32000 Sitiawan, Perak Darul Ridzuan, Malaysia	Leasehold/ 13 March 2096	394,654	Fabrication Yard/ Office Building	6,077	Not Applicable	2002
Plot D-11, Lumut Port Industrial Park, Kampung Acheh, Mukim Lumut, Daerah Manjung, 32000 Sitiawan, Perak Darul Ridzuan, Malaysia	Leasehold/ 13 March 2096	398,574	Fabrication Yard/ Workshop	40,477	Not Applicable	2004
Plot D-9, Lumut Port Industrial Park, Kampung Acheh, Mukim Lumut, Daerah Manjung, 32000 Sitiawan, Perak Darul Ridzuan, Malaysia	Leasehold/ 13 March 2096	490,050	Fabrication Yard/ 3-Storey Office	6,283	Not Applicable	2004
Plot D-7, Lumut Port Industrial Park, Kampung Acheh, Mukim Lumut, Daerah Manjung, 32000 Sitiawan, Perak Darul Ridzuan, Malaysia	Leasehold/ 13 March 2096	237,123	Fabrication Yard/ Reserved Land/ Canteen & Client Office	8,035	Not Applicable	2005
Plot D-12, Lumut Port Industrial Park, Kampung Acheh, Mukim Lumut, Daerah Manjung, 32000 Sitiawan, Perak Darul Ridzuan, Malaysia	Leasehold/ 13 March 2096	336,299	Fabrication Yard/ Reserved Land	2,696	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	3,750	11	2005
Plot H-1, Lumut Port Industrial Park, Kampung Acheh, Mukim Lumut, Daerah Manjung, 32000 Sitiawan, Perak Darul Ridzuan, Malaysia	Leasehold 09 July 2105	298,031	Fabrication Yard	2,456	Not Applicable	2008
Plot H-2, Lumut Port Industrial Park, Kampung Acheh, Mukim Lumut, Daerah Manjung, 32000 Sitiawan, Perak Darul Ridzuan, Malaysia	Leasehold 09 July 2105	425,587	Fabrication Yard/ Workshop	9,479	Not Applicable	2008
Lot G9, Lumut Port Industrial Park Kampung Acheh, Mukim Lumut Daerah Manjung, 32000 Sitiwan Perak Darul Ridzuan, Malaysia	Leasehold 09 July 2105	653,046	Fabrication Yard	11,152	Not Applicable	2010

Location	Tenure / Expiry Date	Area (sq ft)	Description / Existing use	Net Book Value (RM'000)	Age of Building (Years)	Year of Acquisition
Lot G6, G7 & G8 Lumut Port Industrial Park Kampung Acheh, Mukim Lumut Daerah Manjung, 32000 Sitiwan Perak Darul Ridzuan, Malaysia	Leasehold 09 July 2105	996,889	Fabrication Yard / Workshop	12,946	Not Applicable	2010
Lot D-2 & D-13 Lumut Port Industrial Park, Kampung Acheh, Mukim Lumut, Daerah Manjung, 32000 Sitiawan, Perak Darul Ridzuan, Malaysia	Leasehold 15 February 2096	593,887	Fabrication Yard/ Workshop / Access Road	10,708	Not Applicable	1996 - 2001 2007
PN 6654 Lot 5856 PN 7583 Lot 6090 PN 8374 Lot 6103 Mukim of Teluk Kalung Kemaman, Terengganu	Leasehold 17 December 2063 10 May 2066 20 December 2066	437,090 174,839 279,000	Industrial Land	7,359	7 4 4	2010
PN 59581 Lot No.3079, Seksyen 13 Bandar Shah Alam, Petaling Jaya, Selangor	Leasehold/ 23 October 2104	7,631	Bungalow Lot	633	5	2010
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	273	22	2002
PT No. 595, H.S. (D) Dgs 1276/88 & PT No. 538, H.S. (D) Dgs 1272/88, Lumut Port Industrial Park, Kampung Acheh, Mukim Lumut, Daerah Manjung, 32000 Sitiawan, Perak Darul Ridzuan, Malaysia	Leasehold 28 September 2087	108,498	Fabrication Yard/ Workshop & Office Building	3,625	15	1993 - 2006
Lot I1, Lumut Port Industrial Park, Kampung Acheh, Mukim Lumut, Daerah Manjung, 32000 Sitiawan, Perak Darul Ridzuan, Malaysia	Leasehold 21 December 2094	269,612	Fabrication Yard & Workshop	7,475	2 - 14	1995 - 2009
Lot H4, Lumut Port Industrial Park, Kampung Acheh, Mukim Lumut, Daerah Manjung, 32000 Sitiawan, Perak Darul Ridzuan, Malaysia	Leasehold (Exp 2094)	961,282	Fabrication Yard/ Workshop & Office Building	21,221	3	2006 - 2008
Unit B-10-9, Megan Avenue II, No. 12 Jalan Yap Kwan Seng, 50450 Kuala Lumpur, Malaysia	Freehold	2,530	Office Lot	736	11	2005

GROUP DIRECTORY

HEADQUARTERS

Kencana Petroleum Berhad
Kencana HL Sdn. Bhd. and its subsidiaries
Kencana Bestwide Sdn. Bhd.
Kencana Petroleum Ventures Sdn. Bhd. and its subsidiaries
Kencana Torsco Sdn. Bhd. and its subsidiaries
Kencana Pinewell Sdn. Bhd.

Level 6, Menara Kencana Petroleum
Solaris Dutamas, No. 1
Jalan Dutamas 1
50480 Kuala Lumpur, Malaysia

Tel : (6)03-6209 8000
Fax : (6)03-6209 3800

OPERATION OFFICE

Kencana HL Sdn. Bhd.
(Lumut Fabrication Yard)

Plot D1, Lumut Port Industrial Park
Kampung Acheh, Mukim Lumut
Daerah Manjung
32000 Sitiawan
Perak Darul Ridzuan, Malaysia

Tel : (6)05-692 3071
Fax : (6)05-692 2609

Kencana Torsco Sdn. Bhd.
(Lumut Fabrication Yard)

Lot 538 & 595 Lumut Port Industrial Park
Kampung Acheh, Mukim Lumut
Daerah Manjung
32000 Sitiawan
Perak Darul Ridzuan, Malaysia

Tel : (6)05-692 1034
Fax : (6)05-692 9880

Kencana Pinewell Sdn. Bhd.

K 9595, Taman Chukai Utama
Jalan Kubang Kurus
24000 Kemaman
Terengganu Darul Iman
Malaysia

Tel : (6)09-859 2955
Fax : (6)09-859 1603

FORM OF PROXY

KENCANA PETROLEUM

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 Sixth Annual General Meeting of the Company to be held at Ballroom 1, Sime Darby Convention Centre, 1A, Jalan Bukit Kiara 1, 60000 Kuala Lumpur, Malaysia on Tuesday, 14 December 2010 at 11.00 a.m. and at any adjournment thereof, in the manner indicated below:-

	Resolutions	For	Against
1.	To re-elect Yeow Kheng Chew as Director.		
2.	To re-elect Ir. Cher Lee Kiat as Director.		
3.	To re-elect Azmi Bin Ismail as Director.		
4.	To elect Tunku Dato' Mahmood Fawzy Bin Tunku Muhiyiddin as Director.		
5.	To approve the payment of Directors' fees amounting to RM180,000 for the financial year ended 31 July 2010.		
6.	To declare a first and final single-tier dividend of 5% per ordinary share of RM0.10 each for the financial year ended 31 July 2010.		
7.	To re-appoint Messrs. KPMG as Auditors of the Company for the ensuing financial year, and to authorise the Directors to fix their remuneration.		
8.	Authority to allot shares pursuant to Section 132D of the Companies Act, 1965.		
9.	Proposed Renewal of Shareholders' Mandate for Recurrent Related Party Transactions of A Revenue or Trading Nature		

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:..

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:..

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:.....................................%

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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 Lot 6.08, 6th Floor, Plaza First Nationwide, No. 161, Jalan Tun. H.S. Lee, 50000 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
Lot 6.08, 6th Floor, Plaza First Nationwide
No. 161 Jalan Tun H.S. Lee
50000 Kuala Lumpur
Malaysia