

## **KENCANA PETROLEUM BERHAD**

Company No. 667490-M  
(Incorporated in Malaysia)

### **CONDENSED CONSOLIDATED FINANCIAL STATEMENTS**

QUARTERLY REPORT : FINANCIAL PERIOD ENDED 31 OCTOBER 2009

PERIOD : 1 AUGUST 2009 TO 31 OCTOBER 2009

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

FINANCIAL YEAR END : 31 JULY 2010

FIGURES : UNAUDITED

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

(Incorporated in Malaysia)

**CONDENSED CONSOLIDATED INCOME STATEMENTS  
FOR THE FINANCIAL PERIOD ENDED 31 OCTOBER 2009**

|                                                 | <b>1st Quarter</b> |                   | <b>Cumulative Quarter</b> |                   |
|-------------------------------------------------|--------------------|-------------------|---------------------------|-------------------|
|                                                 | <b>01.08.2009</b>  | <b>01.08.2008</b> | <b>01.08.2009</b>         | <b>01.08.2008</b> |
|                                                 | <b>to</b>          | <b>to</b>         | <b>to</b>                 | <b>to</b>         |
|                                                 | <b>31.10.2009</b>  | <b>31.10.2008</b> | <b>31.10.2009</b>         | <b>31.10.2008</b> |
|                                                 | <b>RM'000</b>      | <b>RM'000</b>     | <b>RM'000</b>             | <b>RM'000</b>     |
| Revenue                                         | 281,003            | 318,492           | 281,003                   | 318,492           |
| Contract costs                                  | (223,778)          | (263,660)         | (223,778)                 | (263,660)         |
| <b>Gross profit</b>                             | <b>57,225</b>      | <b>54,832</b>     | <b>57,225</b>             | <b>54,832</b>     |
| Depreciation and amortisation                   | (4,282)            | (3,418)           | (4,282)                   | (3,418)           |
| Operating expenses                              | (11,624)           | (7,214)           | (11,624)                  | (7,214)           |
| Other operating income                          | 2,162              | 714               | 2,162                     | 714               |
| <b>Profit from operations</b>                   | <b>43,481</b>      | <b>44,914</b>     | <b>43,481</b>             | <b>44,914</b>     |
| Interest expense                                | (2,592)            | (2,125)           | (2,592)                   | (2,125)           |
| Interest income                                 | 1,017              | 1,015             | 1,017                     | 1,015             |
| Share of results of associates                  | (60)               | 83                | (60)                      | 83                |
| Share of results of jointly controlled entities | (1)                | 2                 | (1)                       | 2                 |
| <b>Profit before taxation</b>                   | <b>41,845</b>      | <b>43,889</b>     | <b>41,845</b>             | <b>43,889</b>     |
| Taxation                                        | (11,112)           | (10,827)          | (11,112)                  | (10,827)          |
| <b>Net profit</b>                               | <b>30,733</b>      | <b>33,062</b>     | <b>30,733</b>             | <b>33,062</b>     |
| <b>Attributed to :</b>                          |                    |                   |                           |                   |
| - Equity holders of the Company                 | 30,826             | 33,062            | 30,826                    | 33,062            |
| - Minority Interests                            | (93)               | -                 | (93)                      | -                 |
| <b>Net profit</b>                               | <b>30,733</b>      | <b>33,062</b>     | <b>30,733</b>             | <b>33,062</b>     |
| <b>Earnings per share :</b>                     |                    |                   |                           |                   |
| - basic (sen)                                   | 3.41               | 3.67              | 3.41                      | 3.67              |
| - diluted (sen)                                 | 3.39               | 3.65              | 3.39                      | 3.65              |

*The condensed consolidated income statements should be read in conjunction with the audited financial statements for the year ended 31 July 2009 and the accompanying explanatory notes attached to the interim financial statements.*

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

(Incorporated in Malaysia)

**CONDENSED CONSOLIDATED BALANCE SHEET  
AS AT 31 OCTOBER 2009**

|                                                             | <b>As at<br/>31.10.2009<br/>Unaudited<br/>RM'000</b> | <b>As at<br/>31.07.2009<br/>Audited<br/>RM'000</b> |
|-------------------------------------------------------------|------------------------------------------------------|----------------------------------------------------|
| <b>ASSETS</b>                                               |                                                      |                                                    |
| <b>Non-current assets</b>                                   |                                                      |                                                    |
| Property, plant and equipment                               | 362,671                                              | 309,171                                            |
| Goodwill                                                    | 39,556                                               | 36,166                                             |
| Investments in associates                                   | 56,240                                               | 56,213                                             |
| Investments in jointly controlled entities                  | 8                                                    | 9                                                  |
| Other investment                                            | 20                                                   | 68                                                 |
|                                                             | <u>458,495</u>                                       | <u>401,627</u>                                     |
| <b>Current Assets</b>                                       |                                                      |                                                    |
| Inventory                                                   | 28,266                                               | 28,293                                             |
| Receivables, deposits and prepayments                       | 235,114                                              | 259,874                                            |
| Current tax assets                                          | 485                                                  | 1,254                                              |
| Cash and cash equivalents                                   | 381,911                                              | 253,893                                            |
|                                                             | <u>645,776</u>                                       | <u>543,314</u>                                     |
| <b>Total assets</b>                                         | <u>1,104,271</u>                                     | <u>944,941</u>                                     |
| <b>EQUITY AND LIABILITIES</b>                               |                                                      |                                                    |
| <b>Equity attributable to equity holders of the Company</b> |                                                      |                                                    |
| Share capital                                               | 90,517                                               | 90,296                                             |
| Share premium                                               | 83,250                                               | 79,682                                             |
| Other reserves                                              | 2,885                                                | 2,971                                              |
| Retained profits                                            | 286,884                                              | 255,968                                            |
|                                                             | <u>463,536</u>                                       | <u>428,917</u>                                     |
| <b>Minority interests</b>                                   | <u>(1,300)</u>                                       | <u>-</u>                                           |
| <b>Total equity</b>                                         | <u>462,236</u>                                       | <u>428,917</u>                                     |
| <b>Non-current liabilities</b>                              |                                                      |                                                    |
| Long term borrowings                                        | 143,005                                              | 155,988                                            |
| Deferred tax liability                                      | 25,005                                               | 24,847                                             |
|                                                             | <u>168,010</u>                                       | <u>180,835</u>                                     |
| <b>Current Liabilities</b>                                  |                                                      |                                                    |
| Short term borrowings                                       | 145,609                                              | 56,780                                             |
| Payables and accruals                                       | 324,126                                              | 276,162                                            |
| Tax liabilities                                             | 4,290                                                | 2,247                                              |
| <b>Total current liabilities</b>                            | <u>474,025</u>                                       | <u>335,189</u>                                     |
| <b>Total liabilities</b>                                    | <u>642,035</u>                                       | <u>516,024</u>                                     |
| <b>Total equity and liabilities</b>                         | <u>1,104,271</u>                                     | <u>944,941</u>                                     |
| Net assets per share (RM)                                   | <u>0.51</u>                                          | <u>0.48</u>                                        |

*The condensed consolidated balance sheet should be read in conjunction with the audited financial statements for the year ended 31 July 2009 and the accompanying explanatory notes attached to the interim financial statements.*

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

(Incorporated in Malaysia)

**CONDENSED CONSOLIDATED STATEMENT OF CHANGES IN EQUITY  
FOR THE FINANCIAL PERIOD ENDED 31 OCTOBER 2009**

|                                                       | -----Attributable to the equity holders of the Company ----- |                            |                                   |                               | Minority<br>Interests | Total<br>Equity |                |
|-------------------------------------------------------|--------------------------------------------------------------|----------------------------|-----------------------------------|-------------------------------|-----------------------|-----------------|----------------|
|                                                       | ----- Non-distributable -----                                |                            | Distributable                     |                               |                       |                 |                |
|                                                       | Share<br>Capital<br>RM'000                                   | Share<br>premium<br>RM'000 | Share option<br>reserve<br>RM'000 | Retained<br>profits<br>RM'000 | Total<br>RM'000       | RM'000          | RM'000         |
| <b>At 1 August 2008</b>                               | <b>90,200</b>                                                | <b>78,129</b>              | <b>668</b>                        | <b>142,263</b>                | <b>311,260</b>        | -               | <b>311,260</b> |
| Profit for the year                                   | -                                                            | -                          | -                                 | 118,203                       | 118,203               | -               | <b>118,203</b> |
| Share-based payment                                   | -                                                            | -                          | 2,642                             | -                             | 2,642                 | -               | <b>2,642</b>   |
| Share options exercised                               | 96                                                           | 1,227                      | -                                 | -                             | 1,323                 | -               | <b>1,323</b>   |
| Share options lapsed                                  | -                                                            | -                          | (12)                              | 12                            | -                     | -               | -              |
| Transfer to share premium for share options exercised | -                                                            | 327                        | (327)                             | -                             | -                     | -               | -              |
| Share issue expenses                                  | -                                                            | (1)                        | -                                 | -                             | (1)                   | -               | <b>(1)</b>     |
| Dividends                                             | -                                                            | -                          | -                                 | (4,510)                       | (4,510)               | -               | <b>(4,510)</b> |
| <b>At 31 July 2009</b>                                | <b>90,296</b>                                                | <b>79,682</b>              | <b>2,971</b>                      | <b>255,968</b>                | <b>428,917</b>        | -               | <b>428,917</b> |
| <b>At 1 August 2009</b>                               | <b>90,296</b>                                                | <b>79,682</b>              | <b>2,971</b>                      | <b>255,968</b>                | <b>428,917</b>        | -               | <b>428,917</b> |
| Profit for the period                                 | -                                                            | -                          | -                                 | 30,826                        | 30,826                | (93)            | <b>30,733</b>  |
| Share-based payment                                   | -                                                            | -                          | 610                               | -                             | 610                   | -               | <b>610</b>     |
| Share options exercised                               | 221                                                          | 2,873                      | -                                 | -                             | 3,094                 | -               | <b>3,094</b>   |
| Transfer to share premium for share options exercised | -                                                            | 696                        | (696)                             | -                             | -                     | -               | -              |
| Share issue expenses                                  | -                                                            | (1)                        | -                                 | -                             | (1)                   | -               | <b>(1)</b>     |
| Piecemeal acquisition of a subsidiary                 | -                                                            | -                          | -                                 | 90                            | 90                    | (1,207)         | <b>(1,117)</b> |
| <b>At 31 October 2009</b>                             | <b>90,517</b>                                                | <b>83,250</b>              | <b>2,885</b>                      | <b>286,884</b>                | <b>463,536</b>        | <b>(1,300)</b>  | <b>462,236</b> |

*The condensed consolidated statement of changes in equity should be read in conjunction with the audited financial statements for the year ended 31 July 2009 and the accompanying explanatory notes attached to the interim financial statements.*

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

(Incorporated in Malaysia)

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

|                                                        | <b>Current<br/>Year-to-date<br/>01.08.2009<br/>to<br/>31.10.2009<br/>RM'000</b> | <b>Preceding<br/>Year-to-date<br/>01.08.2008<br/>to<br/>31.10.2008<br/>RM'000</b> |
|--------------------------------------------------------|---------------------------------------------------------------------------------|-----------------------------------------------------------------------------------|
| Net cash generated from operating activities           | 101,605                                                                         | 15,288                                                                            |
| Net cash used in investing activities                  | (56,764)                                                                        | (27,913)                                                                          |
| Net cash generated from/(used in) financing activities | <u>77,583</u>                                                                   | <u>(574)</u>                                                                      |
| Net increase/(decrease) in cash and cash equivalents   | 122,424                                                                         | (13,199)                                                                          |
| Cash and cash equivalents at 1 August                  | 229,521                                                                         | 226,640                                                                           |
| Cash and cash equivalents at 31 October                | <u><u>351,945</u></u>                                                           | <u><u>213,441</u></u>                                                             |

Cash and cash equivalents at end of the financial period comprise the following:

|                        |                       |                       |
|------------------------|-----------------------|-----------------------|
| Cash and bank balances | 102,200               | 187,217               |
| Short term deposits    | 279,711               | 66,122                |
| Bank overdraft         | <u>-</u>              | <u>(885)</u>          |
|                        | 381,911               | 252,454               |
| Deposits pledged       | <u>(29,966)</u>       | <u>(39,013)</u>       |
|                        | <u><u>351,945</u></u> | <u><u>213,441</u></u> |

*The condensed consolidated cash flow statement should be read in conjunction with the audited financial statements for the year ended 31 July 2009 and the accompanying explanatory notes attached to the interim financial statements.*

**PART A: EXPLANATORY NOTES PURSUANT TO FRS 134**

**1. BASIS OF PREPARATION**

The interim financial statements are unaudited and have been prepared in accordance with the requirements of Financial Reporting Standards (“FRS”) 134 : Interim Financial Reporting and disclosure provisions of the Listing Requirements of Bursa Malaysia Securities Berhad (“Bursa Securities”).

The interim financial statements should be read in conjunction with the audited financial statements for the financial year ended 31 July 2009. The explanatory notes attached to the interim financial statements provide an explanation of events and transactions that are significant to an understanding of the changes in the financial position and performance of the Group.

**2. CHANGES IN ACCOUNTING POLICIES**

The significant accounting polices adopted are consistent with those of the audited financial statements for the financial year ended 31 July 2009 except for the adoption of FRS 8 : Operating Segments which became effective for the financial period beginning 1 July 2009.

The adoption of the above FRS only impacts presentation and disclosures. It does not have significant financial impact on the Group.

**3. AUDITORS’ REPORT ON PRECEDING ANNUAL FINANCIAL STATEMENTS**

The auditors’ report on the financial statements of the Company and its subsidiaries for the financial year ended 31 July 2009 were not subject to any qualification.

**4. SEGMENTAL INFORMATION**

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

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

**5. UNUSUAL ITEMS DUE TO THEIR NATURE, SIZE OR INCIDENCE**

There were no unusual items affecting assets, liabilities, equity, net income, or cash flows during the current quarter and financial year-to-date.

**6. SIGNIFICANT ESTIMATES AND CHANGES IN ESTIMATES**

There were no changes in estimates that have had a material effect in the current quarter and financial year-to-date results.

**7. COMMENTS ABOUT SEASONAL OR CYCLICAL FACTORS**

The Group's performance is not affected by any seasonal or cyclical factors.

**8. DIVIDENDS PAID**

No dividend was paid during the current quarter and financial year-to-date.

**9. VALUATION OF PROPERTY, PLANT AND EQUIPMENT**

There was no valuation of property, plant and equipment in the current quarter and financial year-to-date.

**10. DEBT AND EQUITY SECURITIES**

During the current quarter, the Company issued 165,000, 2,017,000 and 30,000 new ordinary shares of RM0.10 each, for cash, arising from the exercise of ESOS at exercise prices of RM1.35, RM1.40 and RM1.60 per ordinary share respectively.

Save as disclosed above, there were no issuances, cancellations, repurchases, resale and repayments of debt and equity securities during the current quarter and financial year-to-date.

**11. CHANGES IN COMPOSITION OF THE GROUP**

On 1 October 2009, the Company had reorganised the shareholding of its indirect subsidiary, Kencana Pinewell Sdn. Bhd.. The entire equity interest of Kencana Pinewell Sdn. Bhd. comprising 500,000 ordinary share of RM1.00 each has been transferred to the Company from Kencana Bestwide Sdn. Bhd., a direct wholly-owned subsidiary of the Company. As a result of the transfer, Kencana Pinewell Sdn. Bhd. has become a direct wholly-owned subsidiary of the Company.

Save as disclosed above, there were no changes in the composition of the Group during the current quarter and financial year-to-date.

**12. CHANGES IN CONTINGENT LIABILITIES AND CONTINGENT ASSETS**

**Corporate Guarantee**

Kencana Bestwide Sdn Bhd (“Kencana Bestwide”), a wholly-owned subsidiary of the Company, granted unsecured corporate guarantee amounting to RM1,500,000 to a financial institution for credit facilities granted to Best Wide Engineering (M) Sdn Bhd, an associated company of Kencana Bestwide.

**Material Litigation**

- (a) Kencana Bestwide, a wholly-owned subsidiary of the Company, filed a Summons in the Kuala Lumpur High Court on 15 October 2003 against one of its customers for the sum of RM1,071,899.02 plus interest, being outstanding payment due and owing to Kencana Bestwide for work done and services rendered by Kencana Bestwide. The said customer in return, filed a counter-claim for the sum of RM2,122,573.08 plus interest, for damages allegedly suffered. Kencana Bestwide’s solicitors are of the view that the customer’s counter-claim is a mere assertion and lacks of substantial evidence in support. The full trial of this matter was part heard in the Court on 11 and 12 May, 29 and 30 June and 1 July 20009. The full trial continued on 5 October, 6 and 18 November 2009. On 26 November 2009 which was fixed for decision, the Court postponed the decision to a date to be informed.
- (b) A claimant filed a Summons in the Kuala Lumpur High Court on 15 September 2008 against Kencana HL as the second defendant for inter-alia a sum of RM1,731,388.92, interest payment of RM1,131,635.90, damages and other costs being outstanding payment due and owing by Kencana HL for work done and services rendered by the said claimant and wrongful termination by Kencana HL of the said claimant as a sub-contractor for Kencana HL. Kencana HL’s solicitors filed a Defence and served it on the said claimant’s solicitors. On 10 December 2008 the claimant’s solicitors served a Reply to Kencana HL’s Defence. On 21 August 2009, the claimant filed an application for summary judgment against Kencana HL. On the hearing date of the summary application on 22 October 2009. To date, the Court has fixed 21 January 2010 for mention pending finalisation of affidavits from both parties.

Save as disclosed above, there were no other material contingent liabilities that may, upon materialisation, have a material effect on the Group’s financial results or position.

**13. CAPITAL COMMITMENTS**

The amount of commitments for the purchase of property, plant and equipment not provided for in the interim condensed financial statements as at 31 October 2009 were as follows:

|                                           | <b>As at<br/>31.10.2009<br/>RM’000</b> |
|-------------------------------------------|----------------------------------------|
| <b>Approved and contracted for</b>        |                                        |
| Purchase of property, plant and equipment | <u>166,139</u>                         |



**14. SUBSEQUENT EVENTS**

(a) Employees Share Options Scheme (“ESOS”)

Subsequent to 31 October 2009, the Company issued 1,065,000, 3,248,800 and 30,000 new ordinary shares of RM0.10 each, for cash, arising from the exercise of ESOS at exercise prices of RM1.35, RM1.40 and RM1.60 per ordinary share respectively.

(b) On 11 November 2009, the Company proposed to undertake the following proposals:

- (i) Proposed Renounceable Rights Issue of up to 369,066,200 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 Kencana Petroleum at an entitlement date to be determined and announced later;
- (ii) Proposed Bonus Issue of up to 387,519,510 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 to be issued) held in Kencana Petroleum on an entitlement date to be determined and announced later;
- (iii) Proposed Provision of Financial Assistance in the form of the securities to be provided by Kencana Petroleum and/or its subsidiaries for the facility taken by Mermaid Kencana Rig 1 Pte Ltd , an associate of Kencana Petroleum; and
- (iv) Proposed New Shareholders’ Mandate for a new Recurrent Related Party Transaction of a revenue or trading nature.

(Collectively referred to as the “Proposals”)

The Company has received approval in-principle from the Bursa Securities vide its letter dated 23 November 2009 in respect of the Proposals.

The Proposals were duly approved by the shareholders of the Company at the Extraordinary General Meeting held on 10 December 2009.

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

**PART B: EXPLANATORY NOTES PURSUANT TO APPENDIX 9B OF THE LISTING REQUIREMENTS OF BURSA MALAYSIA SECURITIES BERHAD**

**15. PERFORMANCE REVIEW**

For the current quarter under review, the Group recorded revenue of RM281.0 million and profit before taxation of RM41.8 million. Compared to the corresponding quarter ended 31 October 2008 of RM318.5 million, revenue had decreased by approximately 12% in the current quarter, mainly due to progress achieved for contracts in hand, which was in line with the project delivery schedule. Accordingly, profit before tax had gone down by 5% from RM43.9 million to RM41.8 million.

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

Profit before tax had gone up by approximately 7.5% for the current quarter under review at RM41.8 million, as compared to the immediate preceding quarter of RM38.9 million. The increase in profit before tax for the current quarter was mainly due to better management of costs.

**17. COMMENTARY ON PROSPECTS**

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

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

**18. PROFIT FORECAST**

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

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

**19. TAXATION**

|                      | <b>1<sup>st</sup> Quarter</b>                                        |                                                                      | <b>Cumulative Quarter</b>                                            |                                                                      |
|----------------------|----------------------------------------------------------------------|----------------------------------------------------------------------|----------------------------------------------------------------------|----------------------------------------------------------------------|
|                      | <b>01.08.2009</b><br><b>To</b><br><b>31.10.2009</b><br><b>RM'000</b> | <b>01.08.2008</b><br><b>To</b><br><b>31.10.2008</b><br><b>RM'000</b> | <b>01.08.2009</b><br><b>To</b><br><b>31.10.2009</b><br><b>RM'000</b> | <b>01.08.2008</b><br><b>To</b><br><b>31.10.2008</b><br><b>RM'000</b> |
| Income tax expense   | 10,953                                                               | 10,860                                                               | 10,953                                                               | 10,860                                                               |
| Deferred tax expense | 159                                                                  | (33)                                                                 | 159                                                                  | (33)                                                                 |
|                      | <u>11,112</u>                                                        | <u>10,827</u>                                                        | <u>11,112</u>                                                        | <u>10,827</u>                                                        |

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

**20. SALE OF UNQUOTED INVESTMENTS AND/OR PROPERTIES**

There were no sales of unquoted investments and/or properties in the current quarter and financial year-to-date.

**21. INVESTMENTS IN QUOTED SECURITIES**

There were no dealings by the Group in quoted securities for the current quarter and financial year-to-date. The Group did not hold any investments in quoted securities as at 31 July 2009.

**22. CORPORATE PROPOSALS**

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

Subsequent to the agreement, the option to jointly-own the second newbuild tender rig has lapsed.

## KENCANA PETROLEUM BERHAD (667490-M)

(Incorporated in Malaysia)

- (b) On 12 March 2009, Kencana Petroleum Ventures entered into Subscription and Shareholders' Agreement ("SSA") with Inno Serangkai Sdn Bhd, Inno Senada Sdn Bhd ("Inno Senada"), Malaysian Engineering and Oilfield Services Sdn Bhd and Teras-Kencana Ventures Sdn Bhd ("TKV") (formerly known as Teras Muhibah Sdn Bhd) to invest a total value of USD14 million (approximately RM49 million) in TKV to purchase 27,000 ordinary shares of RM1.00 each in TKV from Inno Senada which represents 27% of the issued and paid-up ordinary share capital of TKV and to subscribe for new redeemable preference shares ("RPS") of RM1.00 each in TKV.

Subsequently Kencana Petroleum Ventures had on 6 August 2009 entered into a Supplemental Agreement to vary some of the terms of the SSA. The main variations provided in the Supplemental Agreement are as follows:

- (i) The total investments to be made by Kencana Petroleum Ventures into TKV in the form of ordinary shares and RPS is now reduced to an aggregate of RM21 million
- (ii) As part of the RM21 million to be invested by Kencana Petroleum Ventures, the ordinary shares of TKV will be increased from the existing 100,000 ordinary shares of RM1.00 each to 282,000 ordinary shares of RM1.00 each to be subscribed in the following manner:-

| Shareholder                | Existing ordinary shares | Issuance of new ordinary shares | Resultant Ordinary Shares |     |
|----------------------------|--------------------------|---------------------------------|---------------------------|-----|
|                            |                          |                                 | No.                       | %   |
| Kencana Petroleum Ventures | 27,000                   | 162,000                         | 189,000                   | 67  |
| Inno Senada                | 73,000                   | 20,000                          | 93,000                    | 33  |
| Total                      | 100,000                  | 182,000                         | 282,000                   | 100 |

As a result of the Supplemental Agreement, Kencana Petroleum Ventures had subscribed to a total of 189,000 ordinary shares of RM1.00 each in TKV for a total purchase consideration of RM662,000. The balance of the investment cost of RM21 million will be made in stages by Kencana Petroleum Ventures via subscription of TKV RPS of RM1.00 each.

Following Kencana Petroleum Ventures' subscription of new ordinary shares in TKV as mentioned above, TKV has become a 67%-owned subsidiary of Kencana Petroleum Ventures.

- (c) On 22 June 2009, the Company announced the Proposed Private Placement of up to 10% of the issued and paid-up share capital of the Company.

The Company had obtained the approval of the Company's shareholders at the Company's Annual General Meeting held on 16 December 2008 pursuant to Section 132D of the Companies Act, 1965, that empowered the Board to allot and issue new Shares from time to time and upon such terms and conditions and for such purpose as the Board may deem fit provided the aggregate number of the shares to be issued shall not exceed ten percent (10%) of the issued and paid-up share capital of the Company.

Subsequently, the Company also obtained approvals from the Securities Commission ("SC") and the Equity Compliance Unit of the SC vide the same letter dated 2 July 2009.

The Proposed Private Placement was approved in-principle by the Bursa Securities vide its letter dated 21 July 2009.

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- (d) On 11 November 2009, the Company proposed to undertake the following proposals:
- (i) Proposed Renounceable Rights Issue of up to 369,066,200 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 Kencana Petroleum at an entitlement date to be determined and announced later;
  - (ii) Proposed Bonus Issue of up to 387,519,510 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 to be issued) held in Kencana Petroleum on an entitlement date to be determined and announced later;
  - (iii) Proposed Provision of Financial Assistance in the form of the securities to be provided by Kencana Petroleum and/or its subsidiaries for the facility taken by Mermaid Kencana Rig 1 Pte Ltd , an associate of Kencana Petroleum; and
  - (iv) Proposed New Shareholders’ Mandate for a new Recurrent Related Party Transaction of a revenue or trading nature.

(Collectively referred to as the “Proposals”)

The Company has received approval in-principle from the Bursa Securities vide its letter dated 23 November 2009 in respect of the Proposals.

The Proposals were duly approved by the shareholders of the Company at the Extraordinary General Meeting held on 10 December 2009.

Save as disclosed above, there is no other corporate proposal announced but not completed as at 21 December 2009.

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**23. LOANS AND BORROWINGS**

|                              | <b>As at<br/>31.10.2009<br/>RM'000</b> | <b>As at<br/>31.07.2008<br/>RM'000</b> |
|------------------------------|----------------------------------------|----------------------------------------|
| <b>Short-term borrowings</b> |                                        |                                        |
| Secured:                     |                                        |                                        |
| Bankers' acceptance          | 1,315                                  | 854                                    |
| Term loans                   | 70,238                                 | 11,775                                 |
| Hire purchase liabilities    | 14,056                                 | 13,972                                 |
| Unsecured:                   |                                        |                                        |
| Bank overdraft               | -                                      | 179                                    |
| Revolving credits            | 60,000                                 | 30,000                                 |
|                              | <u>145,609</u>                         | <u>56,780</u>                          |
| <b>Long-term borrowings</b>  |                                        |                                        |
| Secured:                     |                                        |                                        |
| Term loans                   | 122,972                                | 133,777                                |
| Hire purchase liabilities    | 20,033                                 | 22,211                                 |
|                              | <u>143,005</u>                         | <u>155,988</u>                         |
| <b>Total borrowings</b>      | <u>288,614</u>                         | <u>212,768</u>                         |

The Group borrowings in RM equivalent are denominated in the following currencies:

|                  |                |                |
|------------------|----------------|----------------|
| Ringgit Malaysia | 251,104        | 174,048        |
| US Dollar        | 37,510         | 38,720         |
| Total            | <u>288,614</u> | <u>212,768</u> |

**24. OFF BALANCE SHEET FINANCIAL INSTRUMENTS**

There were no off balance sheet financial instruments as at 21 December 2009.

**25. CHANGES IN MATERIAL LITIGATION**

As at 21 December 2009, there was no material litigation against the Group except as disclosed in Note 12.

**26. DIVIDEND PROPOSED**

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

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**27. EARNINGS PER SHARE (“EPS”)**

**Basic EPS**

Basic EPS is calculated by dividing the net profit for the period attributable to ordinary equity holders of the parent by the weighted average number of ordinary shares in issue during the period.

|                                                                   | <u>1<sup>st</sup> Quarter</u> |                   | <u>Cumulative Quarter</u> |                   |
|-------------------------------------------------------------------|-------------------------------|-------------------|---------------------------|-------------------|
|                                                                   | <u>01.08.2009</u>             | <u>01.08.2008</u> | <u>01.08.2009</u>         | <u>01.08.2008</u> |
|                                                                   | <u>To</u>                     | <u>To</u>         | <u>To</u>                 | <u>To</u>         |
|                                                                   | <u>31.10.2009</u>             | <u>31.10.2008</u> | <u>31.10.2009</u>         | <u>31.10.2008</u> |
| Net profit attributable to equity holders of the Company (RM'000) | 30,826                        | 33,062            | 30,826                    | 33,062            |
| Weighted average number of ordinary shares in issue ('000)        | 904,051                       | 902,000           | 904,029                   | 902,000           |
| Basic EPS (sen)                                                   | <u>3.41</u>                   | <u>3.67</u>       | <u>3.41</u>               | <u>3.67</u>       |

**Diluted EPS**

Diluted EPS amount is calculated by dividing the net profit for the period attributable to ordinary equity holders of the parent by the weighted average number of ordinary shares in issue during the period after adjusting for the dilutive effects of all potential ordinary shares to be issued under the ESOS.

|                                                                                  | <u>1<sup>st</sup> Quarter</u> |                   | <u>Cumulative Quarter</u> |                   |
|----------------------------------------------------------------------------------|-------------------------------|-------------------|---------------------------|-------------------|
|                                                                                  | <u>01.08.2009</u>             | <u>01.08.2008</u> | <u>01.08.2009</u>         | <u>01.08.2008</u> |
|                                                                                  | <u>To</u>                     | <u>To</u>         | <u>To</u>                 | <u>To</u>         |
|                                                                                  | <u>31.10.2009</u>             | <u>31.10.2008</u> | <u>31.10.2009</u>         | <u>31.10.2008</u> |
| Net profit attributable to equity holders of the Company (RM'000)                | 30,826                        | 33,062            | 30,826                    | 33,062            |
| Adjusted weighted average number of ordinary shares in issue and issuable ('000) | 909,099                       | 906,683           | 909,077                   | 906,683           |
| Diluted EPS (sen)                                                                | <u>3.39</u>                   | <u>3.65</u>       | <u>3.39</u>               | <u>3.65</u>       |

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**28. AUTHORISED FOR ISSUE**

The interim financial statements were authorised for issue by the Board of Directors in accordance with a resolution of the Directors dated 21 December 2009.

BY ORDER OF THE BOARD

**Ng Heng Hooi**  
(MAICSA 7048492)  
Company Secretary  
Kuala Lumpur  
21 December 2009