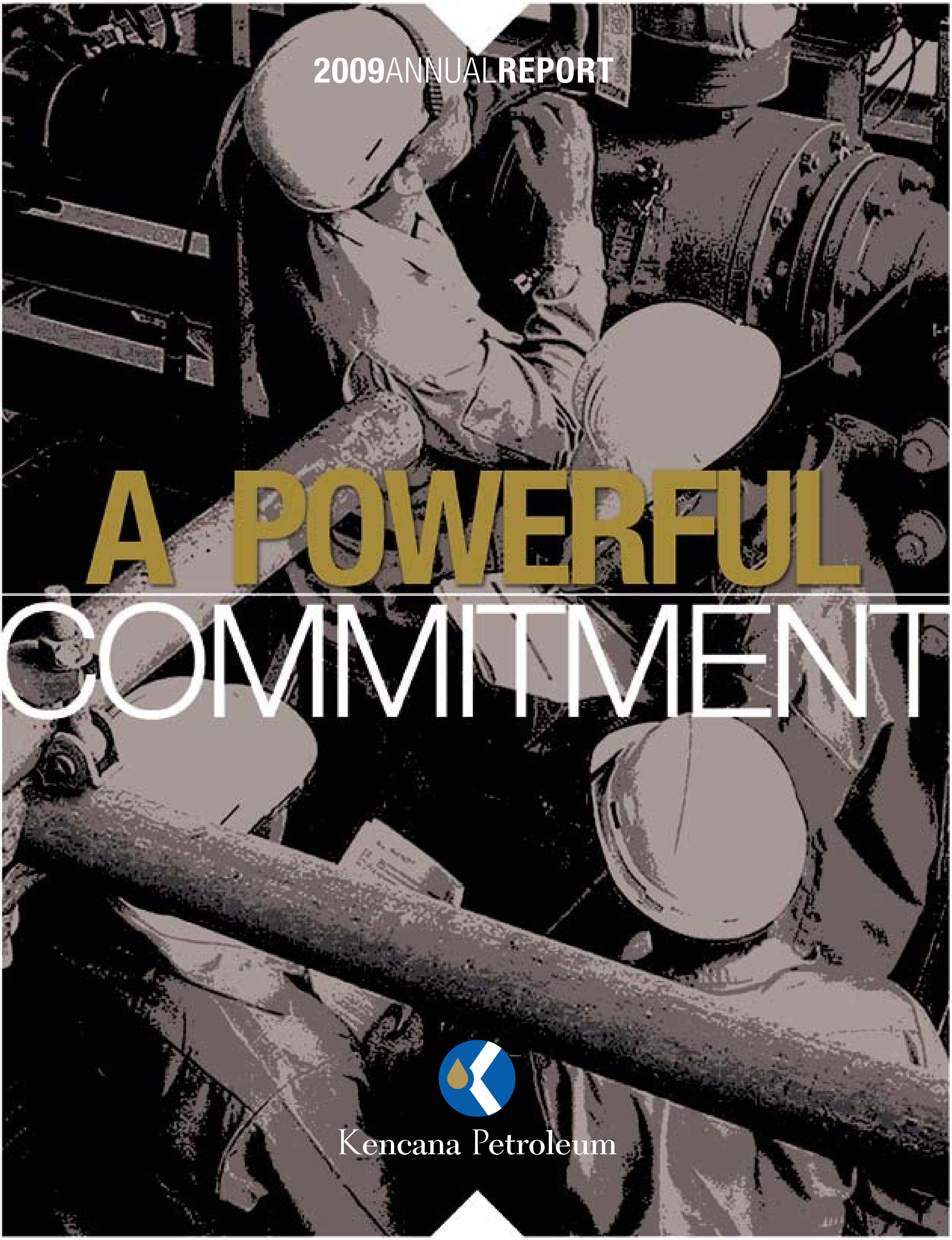
2009ANNUALREPORT

A POWERFUL COMMITMENT



Kencana Petroleum

vision

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

a powerful commitment

As the preferred integrated services provider in the upstream sector, we are greatly committed to everything that we do. From our human capital to strong partnerships, from our core capabilities to our expertise, Kencana Petroleum gives 100% effort in every project we undertake. This powerful commitment is what drives us forward and keeps us at the very top of the industry.

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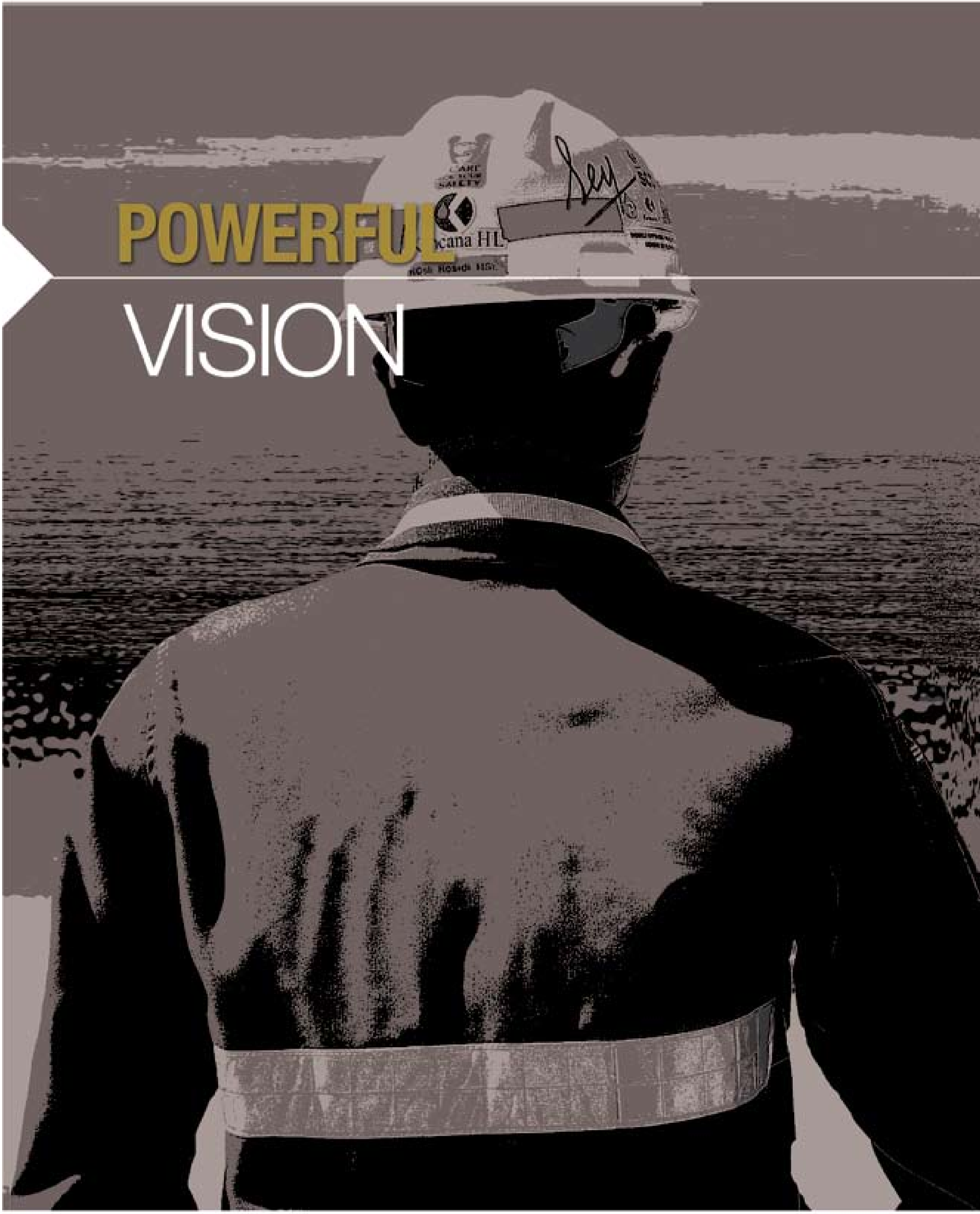
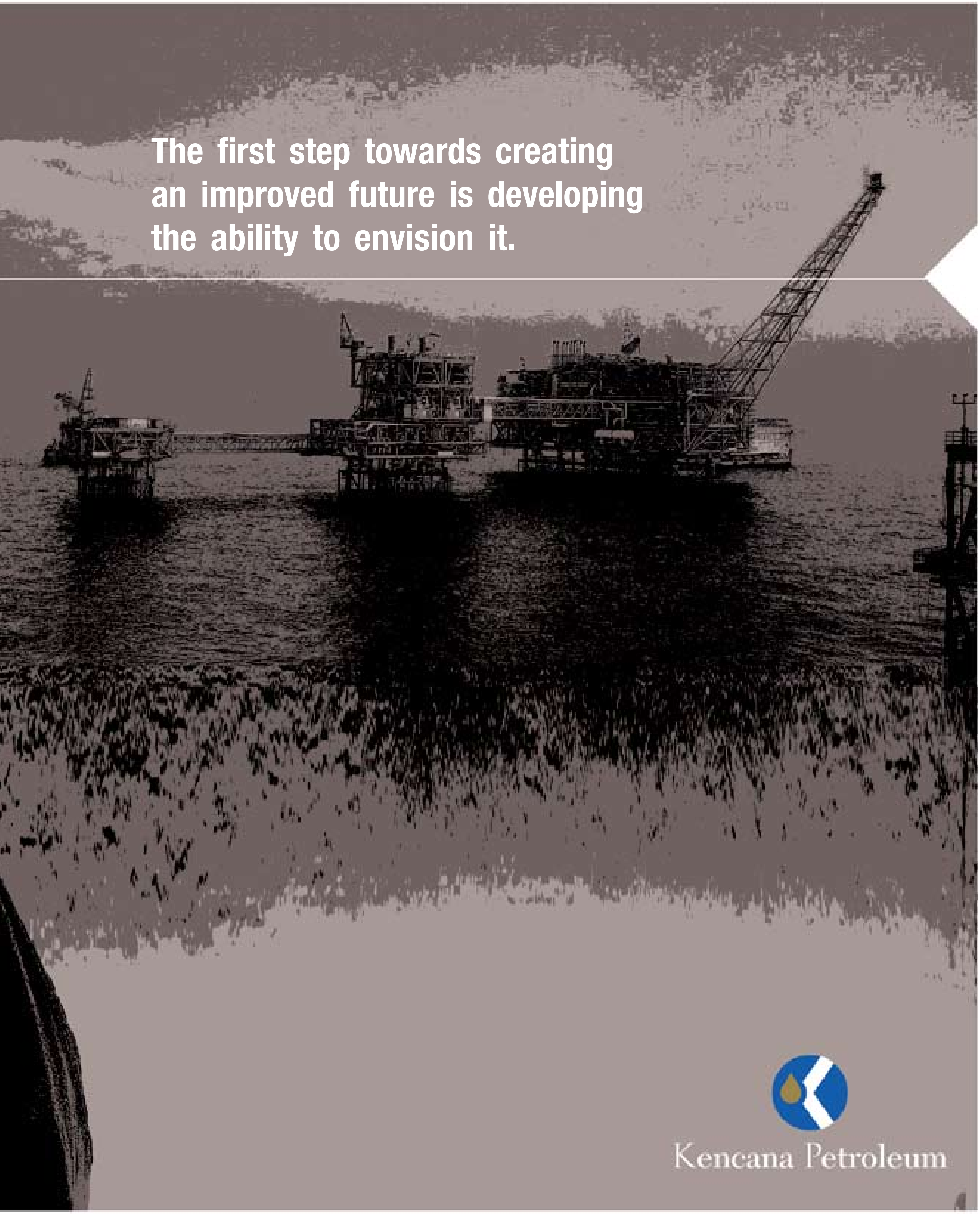
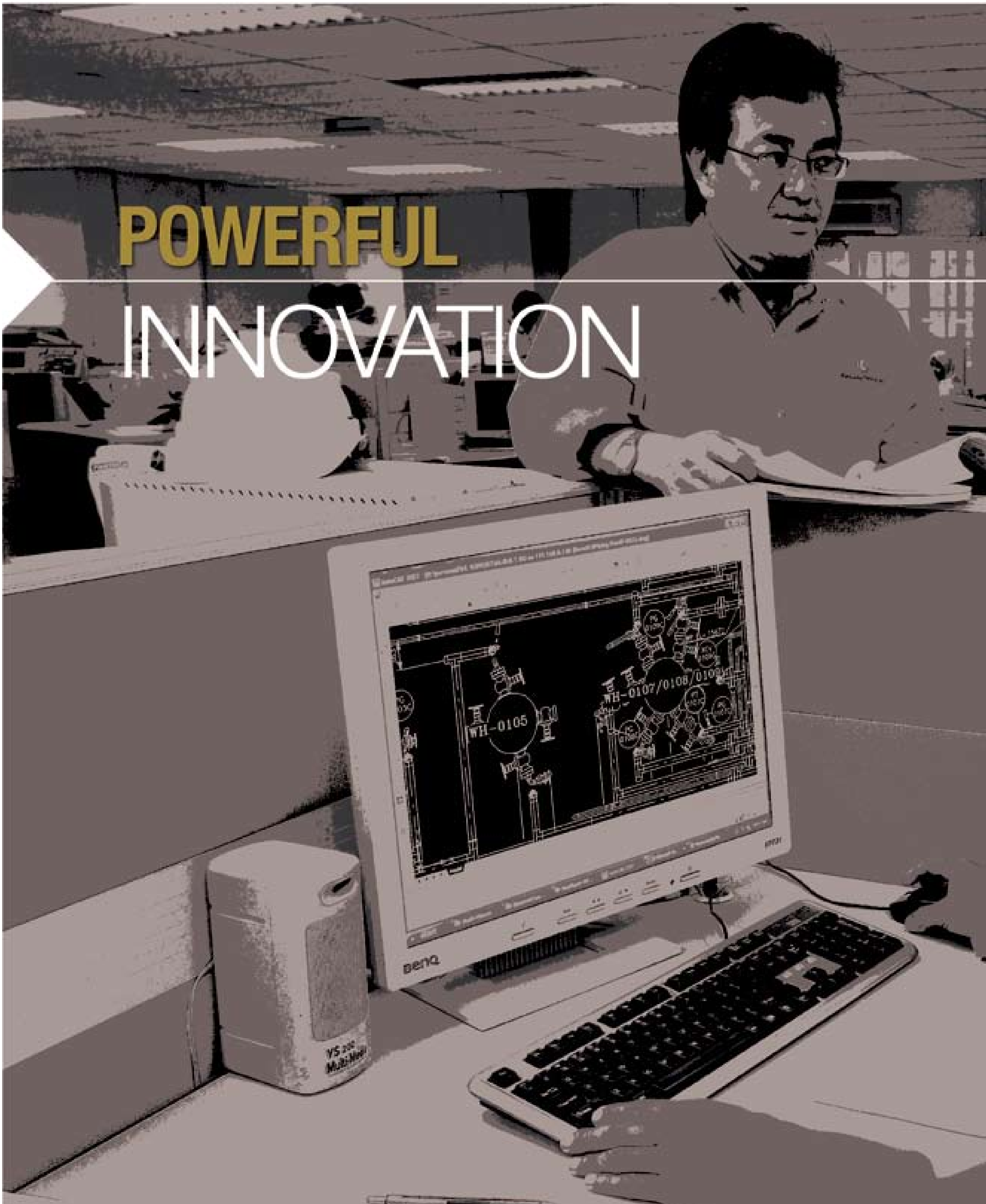
POWERFUL VISION



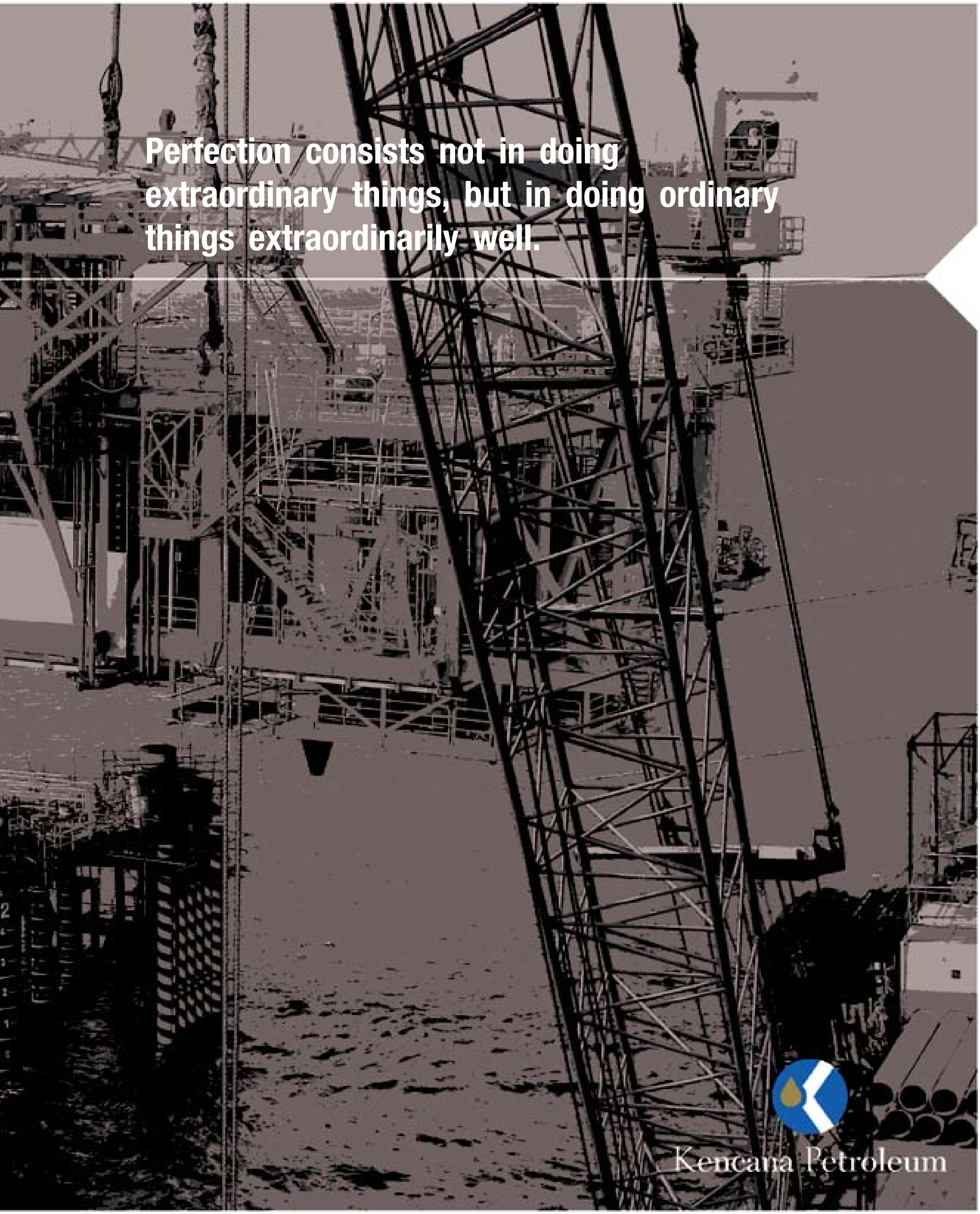

The first step towards creating an improved future is developing the ability to envision it.
Kencana Petroleum

POWERFUL INNOVATION



Creativity is inspiring things.
Innovation is doing new things.
A powerful innovation is doing new things creatively.

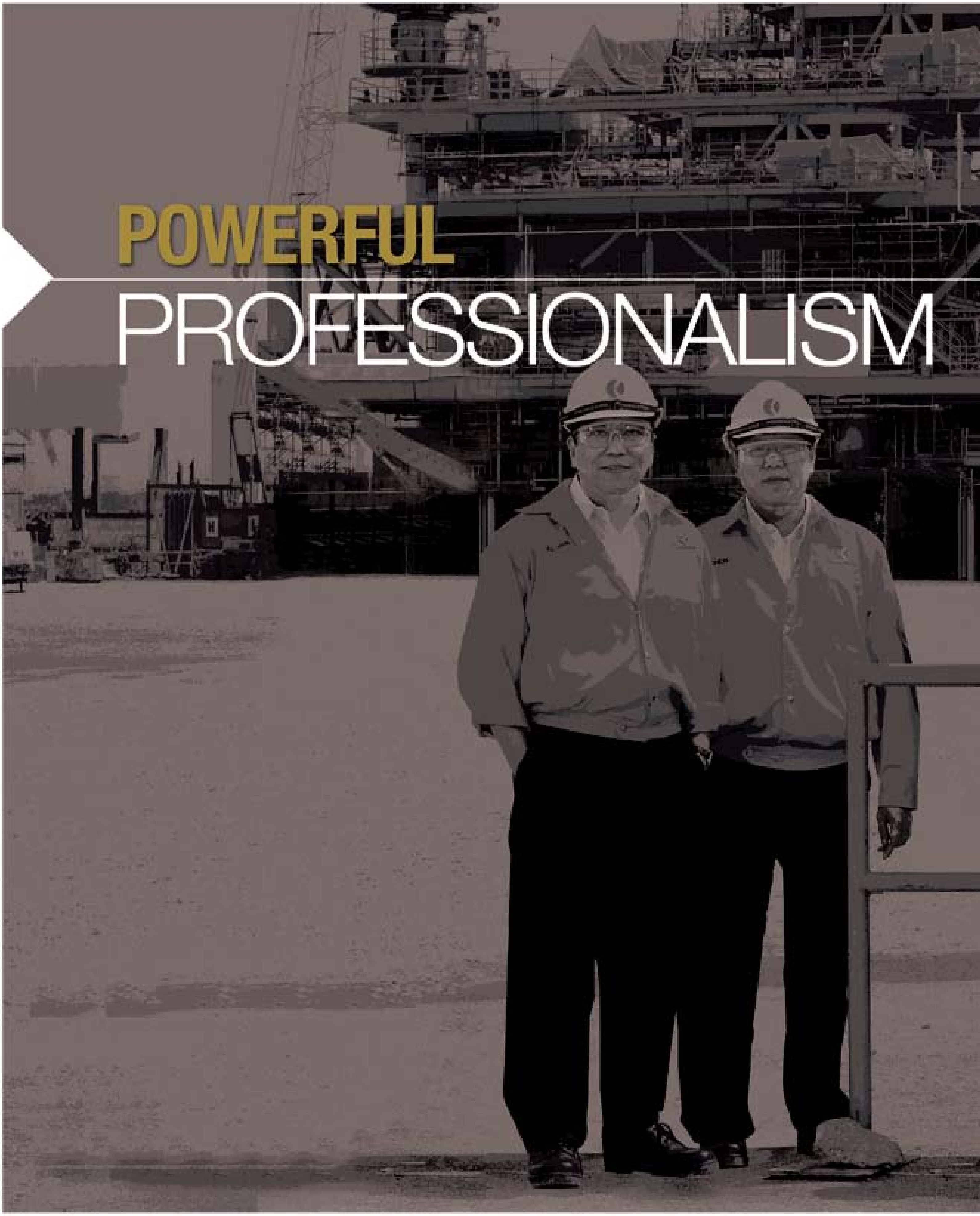
POWERFUL PRECISION

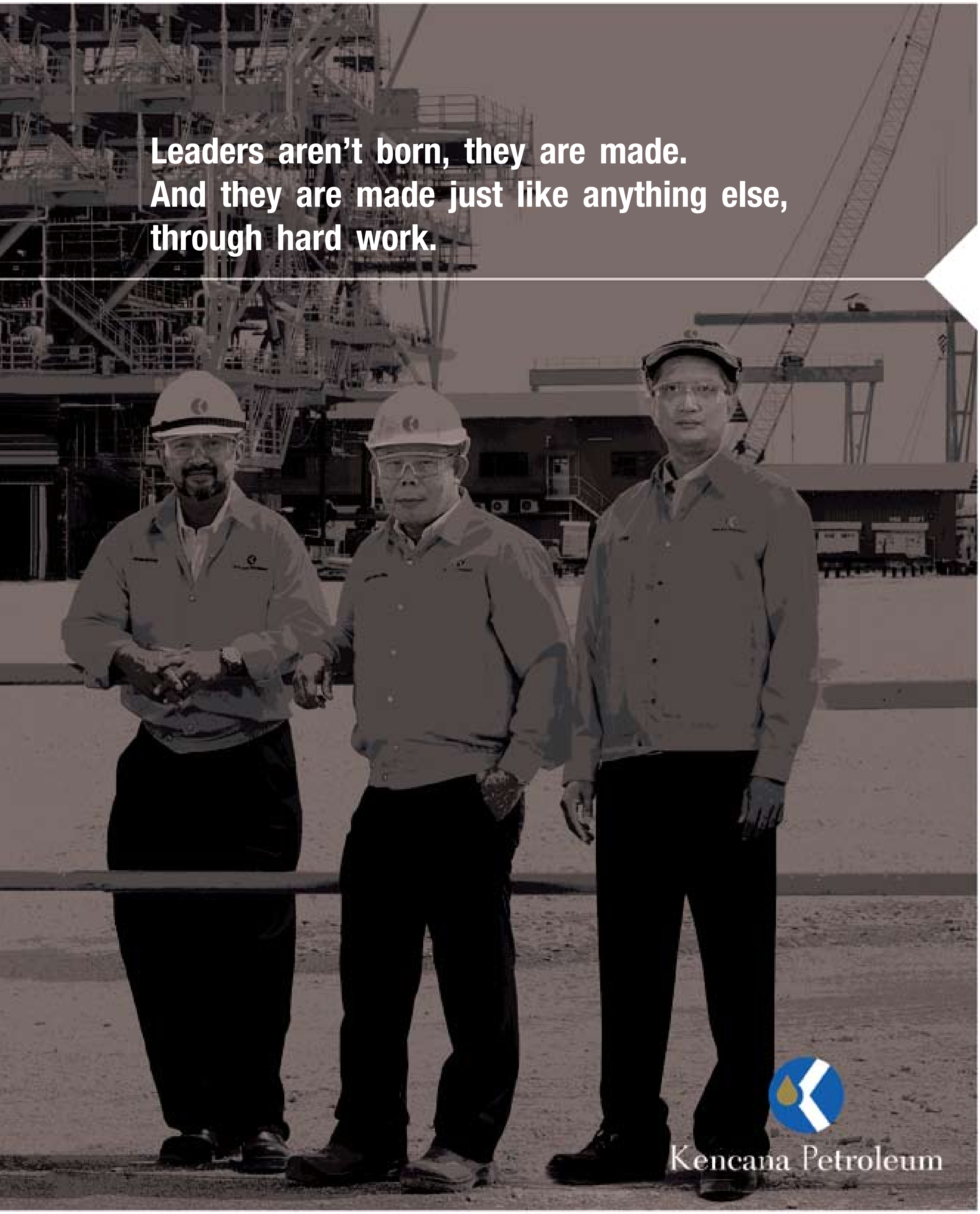

Perfection consists not in doing extraordinary things, but in doing ordinary things extraordinarily well.
Kencana Petroleum

POWERFUL
EXPERTISE


Education is a lifelong experience.
Experience is a lifelong education.
Education plus experience equals expertise.
Kencana Petroleum

POWERFUL PROFESSIONALISM




Leaders aren't born, they are made.
And they are made just like anything else,
through hard work.
Kencana Petroleum

financial performance

Revenue -21%
RM1,141 million
2008 : RM1,452 million

Gross Profit +31%
RM208 million
2008 : RM159 million

EBITDA +28%
RM181 million
2008 : RM141 million

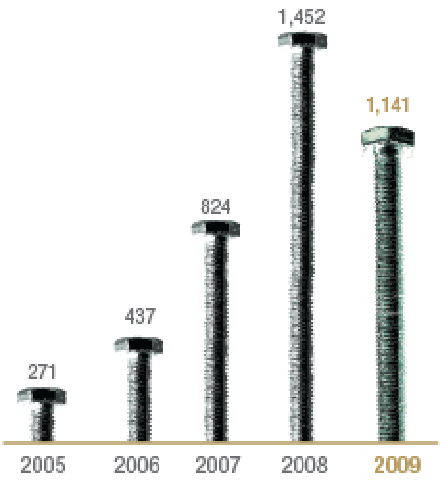
Profit Before Tax +26%
RM153 million
2008 : RM121 million

Profit After Tax +39%
RM118 million
2008 : RM85 million

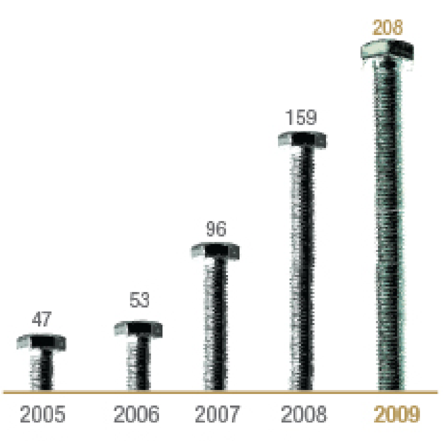
Net Tangible Assets +43%
RM393 million
2008 : RM275 million

- The summary of financial results for the financial years ended 31 July 2005, 2006, 2007 and 2008 have been prepared to illustrate what the financial results of Kencana Petroleum Group would have been if the Group had been in place since the beginning of the years being reported on.

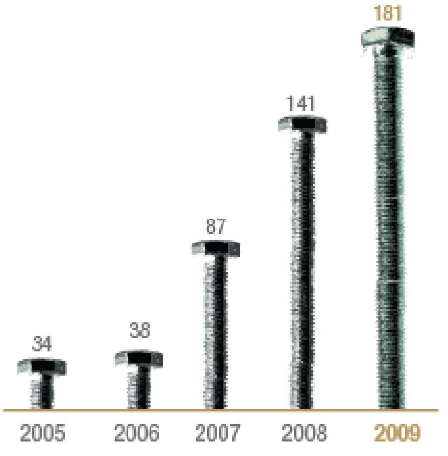
Revenue (RM'000)



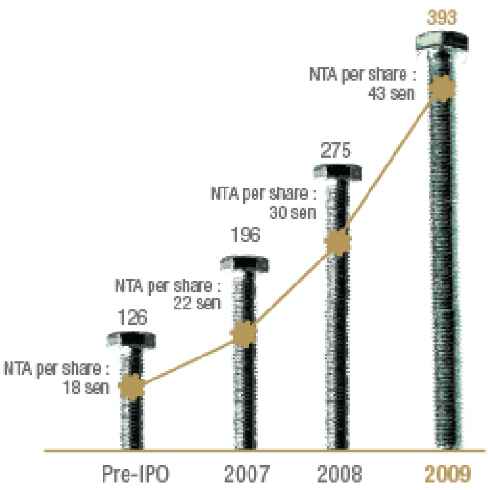
Gross Profit (RM'000)



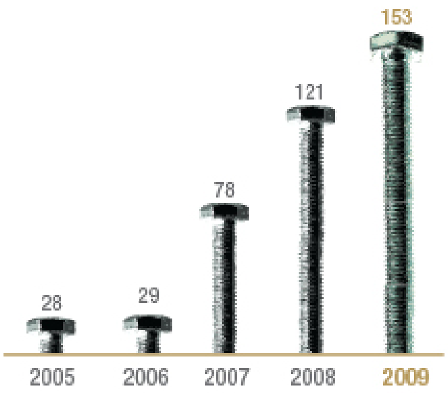
EBITDA (RM'000)



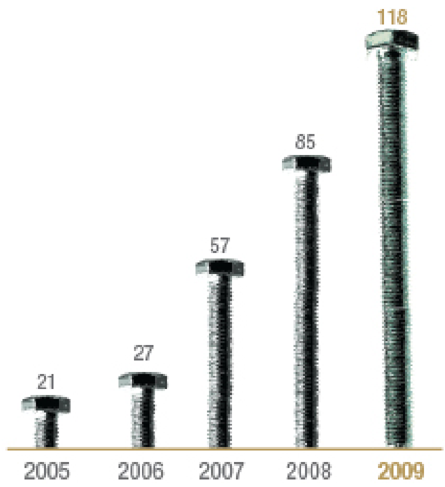
Net Tangible Assets (RM'000)



Profit Before Tax (RM'000)

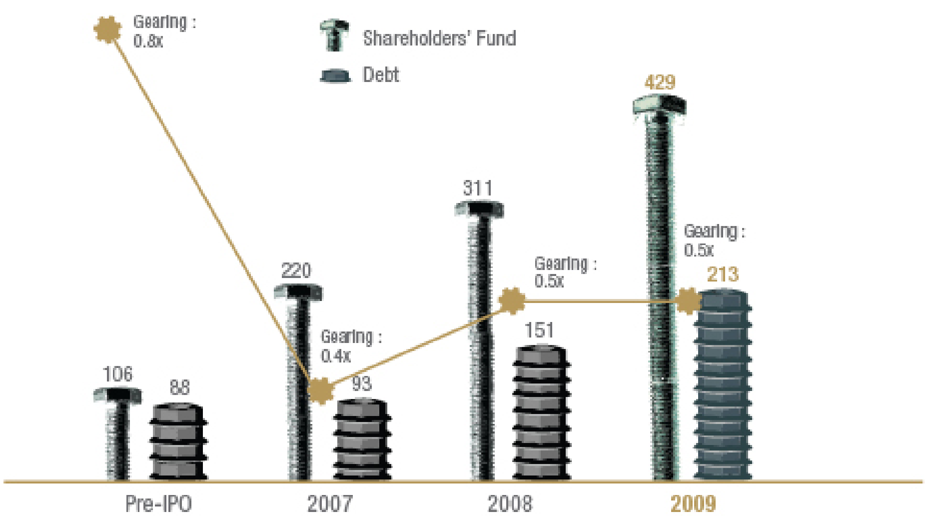


Profit After Tax (RM'000)



Return On Equity (%)

Gearing Ratio (RM'000)



about kencana petroleum

Kencana Petroleum Berhad is a Bursa Malaysia Main Market-listed corporation that is firmly entrenched as the preferred integrated solutions and services provider for upstream oil and gas players.

The Kencana Petroleum Group today possesses an enlarged integrated services offering that encompasses our core business of providing engineering and fabrication services as well as our marine engineering and operations services businesses. Through our marine engineering capability, we are now involved in building, refurbishing, repairing and converting marine vessels, while under our operations services business, we are in a position to offer offshore drilling as well as support vessel services. Leveraging on our core capabilities, expertise and assets, we have been able to expand our business proposition to include hook-up and commissioning activities.

With a powerful commitment to be the best, our workforce of 4,000 employees and an international footprint encompassing the Asia Pacific region, Africa and the Middle East, the Kencana Petroleum Group continues to drive strong performance and deliver exceptional value.

27-year track record

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

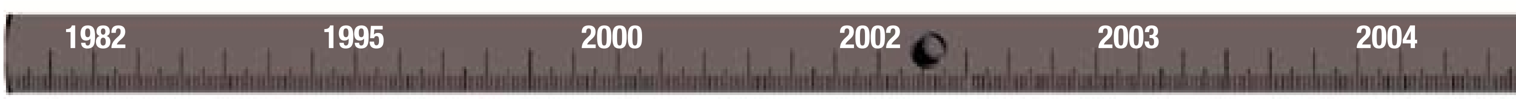
- Awarded a major fabrication (Offshore Structures) license by Petronas. Kencana Petroleum is one of only seven licensees in Malaysia.
- Awarded the Group's first topside and jacket project.

2003

- Kencana HL received ISO9001:2000 accreditation from Lloyd's Register Quality Assurance, Kuala Lumpur.

2004

- Kencana Bestwide received ISO9001:2000 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, pre-commissioning 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 Board 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.
- Awarded the contract for procurement, construction and commissioning of a petroleum hub and bunkering facility at the Asia Petroleum Hub Project.

2008

- Kencana Petroleum completed the world's tallest self-elevating, re-locatable wellhead platform (150m) project.
- Incorporated Kencana Petroleum Ventures Sdn Bhd and Kencana Mermaid Drilling Sdn Bhd, signalling the Group's intention to move into higher value added oil and gas services. Drilling operations are expected to commence by the first quarter of 2010.
- 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 the *KPV Kapas*, the Group's first anchor handling tug and supply vessel ("AHTS").
- Acquired Teras Muhibah Sdn Bhd, a subsidiary company of Kencana Petroleum Ventures to strengthen the Group's focus on the offshore support vessel business.
- Entered the hook-up and commissioning business. Kencana Pinewell, now a wholly-owned subsidiary of Kencana Petroleum, 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 manhours without loss time injury ("LTI") as of October 2009.

notice of annual general meeting

NOTICE IS HEREBY GIVEN THAT the Fifth 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 Thursday, 10 December 2009 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 2009 together with the Reports of the Directors and Auditors thereon. **resolution 1**

2. To re-elect the following Directors who retire pursuant to Article 94 of the Company's Articles of Association:-
   a. Dato' Mokhzani bin Mahathir **resolution 2**
   b. Chong Hin Loon **resolution 3**
   c. Mohd Adzahar bin Abdul Wahid **resolution 4**

3. To approve the payment of Directors' fees amounting to RM165,000 in respect of the financial year ended 31 July 2009. **resolution 5**

4. To approve the payment of first and final single-tier dividend of 5% per ordinary shares of RM0.10 each for the financial year ended 31 July 2009. **resolution 6**

5. To re-appoint Messrs. KPMG as Auditors of the Company and to authorise the Directors to fix their remuneration. **resolution 7**

As Special Business:

To consider and if thought fit, pass the following resolutions:-

6. **Ordinary Resolution**
   Proposed Authority to Allot Shares Pursuant to Section 132D of the Companies Act, 1965. **resolution 8**

   "THAT, subject to the Companies Act, 1965, 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 Companies Act, 1965 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 of the Company."

7. To transact any other ordinary business 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
18 November 2009

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 Capital Markets And Services Act 2007, 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.

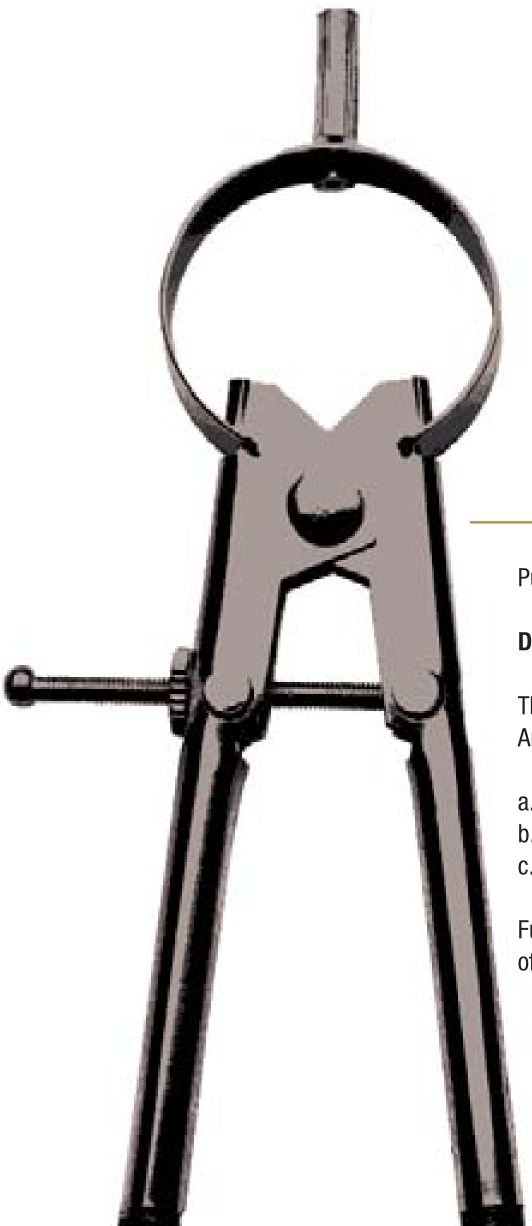
Explanatory Note on Special Business

(i) Resolution 8 - Authority to Allot Shares Pursuant to Section 132D of the Companies Act, 1965

The Proposed Resolution 8, if passed, will give the Directors of the Company, from the date of the above Annual General Meeting, 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 Annual General Meeting of the Company.

As at the date of this Notice, no new shares in the Company were issued pursuant to the authority granted to the Directors at the Fourth Annual General Meeting held on 16 December 2008 and which will lapse at the conclusion of the Fifth Annual General Meeting.

The authority will provide flexibility to the Company for any possible fund raising activities, including but not limited to further placing of shares, for purpose of funding future investment project(s), working capital and/or acquisitions.



statement accompanying notice of annual general meeting

Pursuant to Paragraph 8.27(2) of the Listing Requirements of Bursa Malaysia Securities Berhad

Directors Who Are Standing For Re-Election

The Directors retiring by rotation and standing for re-election pursuant to Article 94 of the Articles of Association of the Company are as follows:-

a. Dato' Mokhzani bin Mahathir
b. Chong Hin Loon
c. Mohd Adzahar bin Abdul Wahid

Further details of Directors who are standing for re-election are set out in the Directors' Profile of this Annual Report.

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

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

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

Company secretaries

NG HENG HOOI
(MAICSA No.: 7048492)

LEONG POI SAN
(MAICSA No.: 7052268)

Registered office

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

Corporate office

50-2-2, Level 2, Wisma UOA Damansara,
50, Jalan Dungun, Damansara Heights,
50490 Kuala Lumpur, Malaysia
Tel No. : (6)03-2093 2280
Fax No. : (6)03-2092 1180

Share registrar

SYMPHONY SHARE REGISTRARS SDN BHD
Level 26,
Menara Multi-Purpose, Capital Square,
8, Jalan Munshi Abdullah,
50100 Kuala Lumpur, Malaysia
Tel No. : (6)03-2721 2222
Fax No. : (6)03-2721 2530

Auditors

KPMG
Chartered Accountants,
KPMG Tower, 8, First Avenue,
Bandar Utama, 47800 Petaling Jaya,
Selangor, Malaysia
Tel No. : (6)03-7721 3388
Fax No. : (6)03-7721 3399

Principal bankers/ financiers

AmBank (M) Berhad
AmInvestment Bank Berhad
Bank Muamalat Malaysia Berhad
Al Rajhi Bank (Malaysia) Berhad
Bank Islam Malaysia Berhad
Malayan Banking Berhad
United Overseas Bank (Malaysia) Berhad
RHB Bank Berhad
HSBC Bank Malaysia Berhad
Orix Credit Malaysia Sdn Bhd
EONCAP Islamic Bank Berhad

Stock exchange listing

Main Market of
BURSA MALAYSIA SECURITIES BERHAD
Stock Code: 5122

Kencana Petroleum

100% **Kencana HL Sdn Bhd (KHL)**
EPCIC and Marine Engineering

- **100%** **Kencana Marine Sdn Bhd**
  Offshore Structure, Shipbuilding & Repair
- **100%** **Kencana Torsco Sdn Bhd**
  (formerly known as Torsco Sdn Bhd)
  Fabrication of Production Facilities
- **100%** **Kencana Metering Sdn Bhd**
  Subsea Manifold and Metering Process Skid System
- **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

- **60%** **Kencana Mermaid Drilling Sdn Bhd**
  Offshore Drilling and Drilling related services
- **25%** **Mermaid Kencana Rig 1 Pte Ltd**
  Ownership of Drilling Rigs and related activities
- **67%** **Teras Muhibah Sdn Bhd**
  Owner and Operator of Offshore Support Vessels
- **21%** **Malaysian Engineering & Oilfield Services Sdn Bhd**
  Offshore Support Vessels and Services for the Oil and Gas Offshore Exploration, Development and Production Activities

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

board of directors

1

2

3

4

1 **Tan Sri Nik Mohamed bin Nik Yaacob**

MALAYSIAN, INDEPENDENT
NON-EXECUTIVE CHAIRMAN

2 **Dato' Mokhzani bin Mahathir**

MALAYSIAN, NON-INDEPENDENT
EXECUTIVE DIRECTOR
GROUP CHIEF EXECUTIVE OFFICER

3 **Chong Hin Loon**

MALAYSIAN, NON-INDEPENDENT
EXECUTIVE DIRECTOR

4 **Yeow Kheng Chew**

MALAYSIAN, NON-INDEPENDENT
EXECUTIVE DIRECTOR

5 **Ir. Cher Lee Kiat**

MALAYSIAN, NON-INDEPENDENT
EXECUTIVE DIRECTOR

6 **Azmi bin Ismail**

MALAYSIAN, NON-INDEPENDENT
EXECUTIVE DIRECTOR

7 **Mohd Adzahar bin Abdul Wahid**

MALAYSIAN, INDEPENDENT
NON-EXECUTIVE DIRECTOR

8 **Syed Zaid bin Syed Jaffar Albar**

MALAYSIAN, INDEPENDENT
NON-EXECUTIVE DIRECTOR

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 60, 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, Bolton Berhad and Scomi Marine Bhd.

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 Nomination Committee.

Dato' Mokhzani bin Mahathir

MALAYSIAN, NON-INDEPENDENT, EXECUTIVE DIRECTOR
GROUP CHIEF EXECUTIVE OFFICER

Dato' Mokhzani bin Mahathir, aged 48, 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, 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.

Chong Hin Loon

MALAYSIAN, NON-INDEPENDENT, EXECUTIVE DIRECTOR

Chong Hin Loon, aged 61, 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, 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 39 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 57, 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 54, was appointed to the Board on 15 September 2005 and presently he is the Non-Independent Executive Director of Kencana Petroleum. He obtained his Bachelor of Engineering Honours (Chemical) from the University of Malaya. He is a Fellow Member 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.

He 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 then left 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 Group, where he is now the Managing Director.

Azmi bin Ismail

MALAYSIAN, NON-INDEPENDENT, EXECUTIVE DIRECTOR

Azmi bin Ismail, aged 48, 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 is responsible for overall management of the company which includes business development, operations, finance and administration.

Mohd Adzahar bin Abdul Wahid

MALAYSIAN, INDEPENDENT, NON-EXECUTIVE DIRECTOR

Mohd Adzahar bin Abdul Wahid, aged 45, 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 Merchant 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 Nomination Committee.

Syed Zaid bin Syed Jaffar Albar

MALAYSIAN, INDEPENDENT, NON-EXECUTIVE DIRECTOR

Syed Zaid bin Syed Jaffar Albar, aged 55, 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. 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 Nomination Committee and 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.*

I am pleased to report that Kencana Petroleum Berhad made excellent strides forward on the financial and operational fronts to deliver commendable results for financial year 2009 ("FY2009"). Notwithstanding the highly challenging operating environment, we chalked up a sizeable order book for fabrication activities, while making solid inroads on the high value-added marine engineering front. We have also successfully positioned ourselves for further growth through exploring the provision of drilling and offshore support vessel services. All in all, FY2009's developments did much to reinforce our position as the preferred integrated service provider for upstream oil and gas players.

chairman's statement

Tan Sri Nik Mohamed bin Nik Yaacob

CHAIRMAN

On behalf of your Board of Directors, I am pleased to present the third Annual Report and Audited Financial Statements of Kencana Petroleum Berhad for the financial year ended 31 July 2009.

FINANCIAL PERFORMANCE

The Group turned in a record profit after tax ("PAT") of RM118.20 million in FY2009, a 38.8% increase over the preceding year's RM85.07 million. However, revenue dipped to RM1.14 billion, a 21.4% reduction against RM1.45 billion previously. Despite the lower revenue, we realised higher margins from our projects as a result of better cost management, increased operational efficiencies and automated processes within our fabrication yard.

A significant portion of FY2009's revenue contributions came from the completion of the Carigali Hess greenfield and brownfield projects in the Malaysia-Thailand Joint Development Area ("JDA"), topside process modules for the Azurite floating drilling production storage and offloading ("FDPSO") vessel and Oyo floating production storage and offloading ("FPSO") vessel, as well as from our first tender assisted drilling rig, the KM-1. On top of this, Carigali-PTTEPI Operating Company's ("CPOC") JDA Block B-17 project and Petronas Carigali Sdn Bhd's ("PCSB") J4 project involving topside and jacket installation as well as hook up and commissioning ("HUC") activities, brought in substantial revenue.

At the end of FY2009, our basic earnings per share increased to 13.10 sen against 9.49 sen in FY2008, while our market capitalisation stood at RM1.9 billion.

On 10 March 2009, 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 2008 amounting to RM4.51 million.

STRATEGIC DEVELOPMENTS

Over the course of the year, we undertook several strategic initiatives in specific business segments to position the Group for further growth and to reinforce our position as the upstream oil and gas sector's preferred integrated services provider.

Marine engineering activities

In line with our aspirations to accelerate our growth and increase the Group's recurring income businesses, FY2009 saw us venturing into the high value-added marine business activities, specifically the building, ownership and operation of tender assisted drilling rigs.

I am pleased to report that on 27 July 2009, the KM-1 was successfully launched onto the water at our Kencana Fabrication Yard, Lumut. The achievement of this milestone is an apt reflection of Kencana Petroleum's ability to undertake technically challenging jobs to exact specifications, on time and on budget. The KM-1 is currently undergoing modifications and is scheduled for delivery by the first quarter of 2010.

Drilling rig operations

Following the delivery of the KM-1, we will strategically move up the value chain by commencing a five-year primary term plus up to five-year contract extension for an offshore drilling programme with PCSB in Malaysia. Kencana Mermaid Drilling Sdn Bhd, the 60% subsidiary of Kencana Petroleum Ventures, will act as an operator of the KM-1 and will provide the drilling services to PCSB. This marks the Group's entry into the drilling rig operations business, in line with the Group's desire to expand its recurring income and secure businesses with higher margins.

Offshore marine support services

In another development, Kencana Petroleum has ventured into the provision of offshore marine support vessel services, via newly set-up associate companies. The Group will provide an initial funding of RM21 million while 67% subsidiary, Teras Muhibah Sdn Bhd ("TMSB"), and 21%-associate, Malaysian Engineering & Oilfield Services Sdn Bhd ("MEOSSB") will take up the responsibility for the vessel chartering via time or bare-boat chartering options. Having completed her sea trial and bollard pull test, our very first anchor handling tug supply ("AHTS") vessel, *KPV Kapas* is ready for operation. Going forward, we plan to have a mixture of vessels including accommodation work barges, AHTS vessels, supply vessels and other support vessels.

Consolidation of expertise

To enhance our business focus and to ensure the Group's resources are better utilised, we have begun to restructure and consolidate the expertise of the many different subsidiaries within the Group. All the Group's offshore HUC and retrofitting/brownfield activities will now come under wholly-owned subsidiary, Kencana Pinewell, while Kencana Torsco will oversee all onshore construction activities. To date, Kencana Pinewell has secured several HUC projects, while Kencana Torsco has won some structural steel construction projects domestically and abroad. Through the consolidation of our diverse activities, we are also providing opportunities for our senior management to rise to the challenge of leading companies within the Group while honing their management skills in different areas.

Overseas expansion

As part of our strategic expansion, Kencana Petroleum is actively pursuing developments in India, Australia and the Middle East. With limited fabrication facilities existing in India at the moment and our efforts to date beginning to bear fruit, our prospects for the fabrication business in India are looking very promising. Opportunities also abound in the Middle East with the oil majors there progressively shifting their focus from onshore to offshore oil production activities. We are also exploring opportunities in other parts of Asia. The Group will also set up a subsidiary to focus solely on international business development which includes undertaking marketing and promotional activities, market intelligence and the analysis of developments in each region.

NEW BUSINESS ACTIVITIES

We are pleased to report that despite the slowdown in global oil and gas activities, we secured several new contracts over the course of FY2009. Via Kencana Mermaid Drilling, we secured the contract from PCSB valued at US$235 million for offshore drilling activities utilising the KM-1. This contract also entails the provision of related equipment and personnel for offshore drilling services for a five-year period, with an option to extend up to another five years.

In October 2008, we were awarded a RM288 million contract from PCSB for the fabrication of offshore facilities for three separate oil and gas fields located offshore Sarawak and Terengganu. We also received two letters of award from Sarawak Shell Bhd worth an estimated combined value of RM260 million for the procurement, fabrication, testing, load-out and sea-fastening of two topsides for two separate offshore platforms destined for the Cili Padi and F-28 oil developments respectively. The Group also secured a RM42 million contract from US-based Global Offshore International to fabricate parts for a pipe-lay barge.

More recently, we won a RM46 million contract from Newfield Peninsula Malaysia Inc for the fabrication and procurement of a jacket and topside for the West Belumut wellhead platform located offshore Peninsular Malaysia; a contract from Mumbai-based Afcons Gunanusa Joint Venture for the construction of jackets for an offshore process platform offshore India; plus we landed a RM90 million service agreement deal from an oil producing company to provide offshore construction services for retrofitting production platforms offshore Peninsular Malaysia. These contracts are expected to contribute positively to the Group's earnings in FY2010.

The Group's strong outstanding order book of approximately RM2 billion to date should continue to keep us busy in FY2010. We are also bidding for some jobs in overseas markets including India, Thailand and Singapore. Going forward, we will endeavour to secure enough work to ensure that our order book remains at RM1 billion at any one time.

CORPORATE GOVERNANCE AND RISK MANAGEMENT

Your Board and Management are committed to implementing good corporate governance and risk management practices within the Group to ensure sustainable value creation for all shareholders. The Group's Statement on Corporate Governance, the Board Committees' Reports and the Statement on Internal Control make clear the internal controls and policies that are in place to protect our business and stakeholder interests. We are also mindful of the vagaries of our operating environment, specifically the fluctuating oil and raw commodity prices, and have set in place the necessary measures to mitigate such risks.

As an apt reflection of our commitment to creating good shareholder value, I am delighted to report that Kencana Petroleum was named one of the finalists in the Industrial Category at the 8th annual KPMG Shareholder Value Awards which ranks public listed companies according to the value they have created for their shareholders.

CORPORATE RESPONSIBILITY

The Group believes in undertaking 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. As such, FY2009 saw us continuing to put in place various corporate responsibility ("CR") initiatives to empower our different target audiences. On the occupational safety and health front, we implemented stringent health, safety and environmental ("HSE") practices to ensure the safety of our workers and maintain our strong safety record. On the environmental front, we continued to comply with local and international environmental best practices and legislation. I am proud to share that we have received certifications for the ISO 14001:2004 environmental management system as well as OHSAS 18001:2007 occupational health and safety management system. We have also achieved our 10 million man hours without a loss time injury ("LTI") milestone as of October 2009. The awards and the milestone achieved speak volumes of our commitment towards conserving the environment as well as ensuring we have a safe and healthy workplace for all.

As part of our commitment to enriching the communities we operate in, we made donations to charitable organisations and undertook CR activities in the areas of "green sports", specifically cycling as it involves non-fossil energy and is in line with our objective of reducing pollution. Our efforts saw us sponsoring the Malaysian national mountain bike team for the inaugural 455-km Tour de Timor, in Timor Leste and we are exploring other such opportunities as well as initiatives to sponsor the sport at the grassroots level. Education is another key area that we are actively looking at.

PROSPECTS

The Board of Kencana Petroleum believes that capital spending in the upstream oil and gas sector will remain resilient for the coming year notwithstanding the lower global oil price. The price of oil has begun to reach the level at which oil and gas players are more comfortable to embark on exploration and production activities and this translates into better prospects for companies like us. As such, Kencana Petroleum expects that demand for our core business of engineering and fabrication of oil and gas production facilities, both offshore and onshore, will remain encouraging. Even as we endeavour to maintain a strong order book of fabrication projects, we will go beyond local shores to focus on more regional opportunities.

To balance out the short-term, one-off projects with businesses that bring recurring income, we will continue to invest in long-term businesses like our marine spread which is coming along nicely. In addition, the Group's activities in the offshore support services business are expected to expand the earnings base of the Group, while drilling operations will play a big part when the KM-1 is deployed.

We also plan to grow organically, via reorganisation of business activities among the existing subsidiary companies. In all this, we will work hard to maintain our profit margins as well as productivity and efficiency levels within all subsidiaries. Barring unforeseen circumstances, the Board of Directors is reasonably confident that the prospects for the Group remain positive.

APPRECIATION

On behalf of the Board of Directors, I wish to convey my sincere gratitude to all our shareholders, Petronas and all other major clients for their steadfast trust and confidence in the Kencana Petroleum Group. I also wish to express my heartfelt thanks to the Malaysian Government, regulatory authorities as well as our business partners, contractors, suppliers, bankers and financiers for their unwavering support and assistance.

To the Group's employees, my heartfelt appreciation for the dedication, diligence and dynamism they have exhibited in helping us deliver commendable results amidst a highly competitive playing field. My sincere thanks to my fellow colleagues on the Board and our Senior Management team, all whom have displayed astute leadership skills as well as provided solid insights to drive our business growth. Your resilience in these challenging times and your sense of responsibility in ensuring our subsidiaries deliver strongly will go a long way in ensuring the Group's success in the long run.

As we focus on propelling Kencana Petroleum forward to new heights of success, I trust that all our stakeholders will continue to place their confidence in us and give us their staunch support.

Thank you.

Tan Sri Nik Mohamed Nik Yaacob
CHAIRMAN

Going forward, we will continue to position ourselves by growing, expanding and planning our business activities in a strategic manner to meet current market demands as well as future needs. As always, our goal will be to build a position of strength from which we can provide the right services at the right time and at the right price.

interview with the group chief executive officer

Dato' Mokhzani bin Mahathir

GROUP CHIEF EXECUTIVE OFFICER

How did Kencana Petroleum perform in financial year 2009?

The Group turned in a strong performance in FY2009 despite a challenging operating environment impacted by volatile oil prices and a global economic slowdown. We turned in record PAT of RM118.20 million albeit revenue dipped lower to RM1.14 billion. The strong 38.8% increase in PAT came on the back of better cost management. We also derived higher project margins as a result of increased operational efficiencies and automated production processes.

Amidst the depressed economy, we took the opportunity to move forward on the high value-added marine engineering front and have positioned ourselves for further growth through the provision of drilling services and offshore marine support services. We also restructured various businesses to derive better synergies and have more focused capabilities locally and abroad. Today, Kencana Petroleum is in a much stronger position to take on a larger spread of projects in new business segments while maintaining our position as the preferred integrated service provider for upstream oil and gas players.

Which projects made a notable contribution to the year's earnings?

Much of the year's contributions were derived from major EPCIC projects coming to a completion. These included the conclusion of the RM980 million Carigali Hess greenfield project in the Malaysia-Thailand JDA – one of the biggest EPCIC contracts awarded to a Malaysian company; and fabrication works for our first tender assisted drilling rig, the KM-1. Significant earnings also came by way of CPOC's JDA Block B-17 project and PCSB's J4 project for topside and jacket installation as well as hook up and commissioning ("HUC") activities.

What landmark projects were undertaken over the course of the financial year?

Through our joint venture company, Mermaid Kencana Rig 1 Pte Ltd ("MKR1"), we have become the first Malaysian company to build locally, own and operate a tender assisted drilling rig, the KM-1. The design and engineering of the rig was done in-house in accordance with the requirements of the American Bureau of Shipping ("ABS"). This marks our strategic move up the oil and gas value chain and it was made possible through the hard work of everyone within Kencana Petroleum in collaboration with our partners at MKR1. Measuring some 320 feet in length and 100 feet in width, the KM-1 can accommodate 145 workers and has a large crane capacity of 300 metric tonnes. The rig is currently undergoing modifications and will be deployed by the first quarter of 2010 to commence a five-year primary term plus up to five-year contract extension for an offshore drilling programme in Malaysia with PCSB. With this development, we are also realising our ambitions of expanding our recurring income and securing businesses with higher margins.

In December 2008, we completed the RM32.2 million lay-barge conversion or fit-out work for the McConnell Bovis partnership. This project took five months to complete and involved the conversion of a plain flat-top barge into a pipe-lay barge capable of laying pipes underwater up to 1,700 mm or 67" in outer diameter. This was our second marine conversion job, the first one being the conversion of a jack-up rig into a mobile offshore production unit. The project is another milestone in our growth strategy to further beef up our marine engineering business.

The completed barge boasts a host of pipe laying facilities including two pipe transfer cars, firing line facilities, two 75-tonne pipe tensioners, winches as well as onboard weld stations. The 100.9 meter barge employs an eight-point mooring system and has 33.5 meter stinger with rollers for two firing lines. Other facilities on this ABS A1 class barge include a control room, workshops and first aid room. The lay-barge was transported to its intended destination in Sydney using the Dockwise heavy transport carrier, *Black Marlin* which set sail for Australia in January 2009.

During the financial year ended 2009, we successfully completed and loaded out 18 topside process modules for Prosafe's Azurite floating drilling production storage and offloading ("FDPSO") vessel, and 10 process modules for the Oyo floating production storage and offloading ("FPSO") vessel. The FDPSO for the Azurite development is the world's first and we are indeed proud to be associated with this project. The successful completion of these two projects demonstrates our capabilities in meeting exacting international FDPSO/FPSO standards amidst extremely tight project schedules, and augurs well in our effort to become a serious player in this niche market.

We also undertook the provision of mechanical and piping installation works for Murphy Oil's Bintulu Onshore Receiving Terminal ("BORF") which forms part of Phase 1 of the SK309/SK311 gas field development located offshore Bintulu, Sarawak. Our scope of work included project management and construction engineering activities for mechanical equipment installation/erection works including unloading and storage at the BORF, electrical and instrumentation equipment installation, plant piping works, tank fabrication and erection, flare structure, onshore export gas and dry gas pipelines and the safety system including equipment supply.

What new contracts were secured in FY2009 and up till the time of writing?

The year saw oil and gas players taking a cautious approach amidst volatile oil prices as they re-assessed budgets in anticipation of lower oil prices. Although some contracts became very competitive, we were able to bid effectively for these because of our operational efficiencies and depth of experience.

We received a letter of award from PCSB in October 2008 for the fabrication of components for two offshore platforms and a gas compression module. This RM288 million contract forms part of development work for three separate oil and gas fields located offshore Sarawak and Terengganu. We also received two letters of award from Sarawak Shell Bhd worth an estimated combined value of RM260 million for the fabrication of two topsides for two separate offshore platforms destined for the Cili Padi and F-28 oil developments respectively. The scope-of-work here covered the procurement, fabrication, testing, load-out and sea-fastening of the two offshore structures.

In the same month, we bagged a five-year, US$235 million offshore drilling contract from PCSB for the KM-1 as well as for related offshore drilling equipment and personnel. This contract also incorporates an option to extend the tenure of the contract for a further five years.

In June 2009, we were awarded a RM35 million contract covering the engineering, procurement and construction of the deck extension for the existing D-35 platform, a new wellhead platform and a pipeline end manifold for the PCPP Joint Operating Company's Block SK 305 offshore gas field in Bintulu, Sarawak. In July 2009, we secured a RM42 million contract from US-based Global Offshore International to fabricate parts for a pipe-lay barge. This construction contract involves the fabrication of stinger systems and handling system for the pipe-lay barge to be delivered in stages between the end of 2009 and the second quarter of 2011.

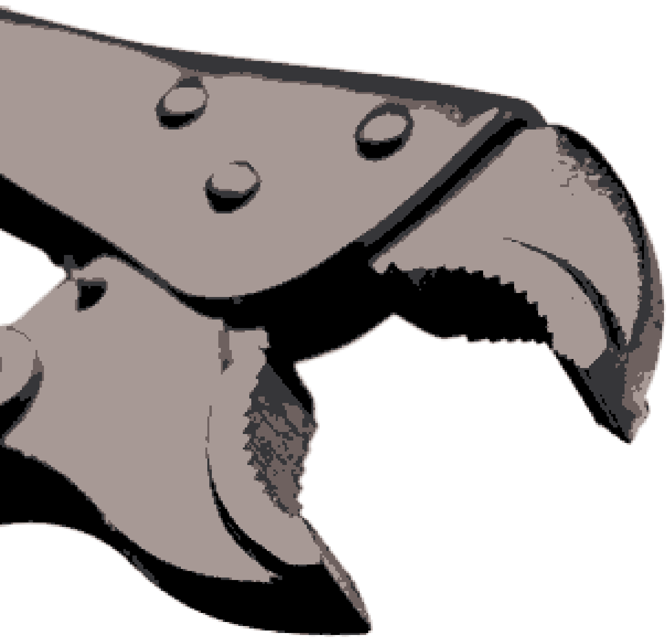
More recently, we won a RM46 million contract from Newfield Peninsular Malaysia Inc for the fabrication and procurement of a jacket and topside for the West Belumut wellhead platform located offshore Peninsular Malaysia. The contract is expected to be delivered in stages within the first quarter of 2010. We also secured a RM50.5 million contract from Mumbai-based Afcons Gunanusa Joint Venture for the construction of jackets for an offshore process platform to be delivered within the third quarter of 2010.
On top of this, Kencana Torsco secured two contracts worth a

combined RM134.5 million for the construction of a manufacturing plant for Sunpower Malaysia Manufacturing Sdn Bhd. The first contract, worth RM106.7 million is for the design, fabrication and construction of a superstructure, including preliminaries, external cladding and other related external works. The second contract, valued at RM27.8 million is for the construction of a substructure, including preliminaries, a substructure earthing system and other related substructure works. We expect to complete these projects in FY2010. Our wholly-owned subsidiary, Kencana Pinewell Sdn Bhd, secured a RM90 million service agreement contract from an oil company to provide offshore construction services for its production platforms offshore Peninsular Malaysia. The three-year contract commenced in September 2009 and is expected to contribute positively to our earnings in FY2010 and beyond.

With these and other projects in hand, the Group has a strong outstanding order book of some RM2 billion to date. On top of this, several other projects we are tendering for look promising and we expect to be kept rather busy in FY2010.

How has the Company strengthened its integrated services offering and moved up the oil and gas value chain?

Some years back, we saw the need to expand beyond our traditional core fabrication business and incorporate a high value-added marine engineering offering into our enlarged integrated services offering. To accelerate our efforts in this area, we chose to enter into a joint venture, namely MKR1, to overcome our resource and expertise limitations. The completion of the KM-1 bears evidence that our efforts in this business segment are paying off nicely.



To further move up the upstream value chain and expand the earnings base of the Group, we set up Kencana Mermaid Drilling Sdn Bhd to act as the operator of our new tender rigs and to provide drilling services. Once again, our efforts have borne fruit in that Kencana Mermaid Drilling will kick-off a five-year offshore drilling programme in Malaysia for PCSB when the KM-1 is to be deployed by the first quarter of 2010.

We have further augmented our integrated services offering by venturing into the offshore support services business. Our newly set-up subsidiary company Teras Muhibah Sdn Bhd (“TMSB”), and associate Malaysian Engineering & Oilfield Services Sdn Bhd (“MEOSSB”) will look after our new vessel ownership and vessel chartering businesses respectively. Currently we are looking into the acquisition of strategic marine assets comprising anchor handling tug supply (“AHTS”) vessels and work barges which will be parked under TMSB. With our new 5220 BHP AHTS, *KPV Kapas*, the KM-1 and other offshore support vessels in the pipeline, we will be in a position to provide a complete suite of services in all phases relating to drilling and platform peripheral support.

What other initiatives are you undertaking to secure the Group’s long-term growth?

In the year under review, we also restructured and consolidated the expertise of the diverse subsidiaries within the Group to better leverage on the Group’s resources and provide us more focused operations. As a result, Kencana Pinewell will now oversee all our HUC and retrofitting/brownfield activities, while the role of Kencana Torsco has been expanded to incorporate onshore construction activities. Going forward, we will look to growing organically to secure Kencana Petroleum’s long-term growth.

A large part of our strategy for expansion involves venturing abroad to spread our risk across several markets. We continue to make good inroads into India, New Zealand and Australia where we have already established a foothold. In India, fabrication opportunities are aplenty due to limited yard facilities operating there currently. We are also actively keeping an eye on opportunities in the Middle East as the market shifting its focus from onshore to offshore oil production activities. Thailand, Vietnam, Cambodia and Indonesia also are areas of opportunity that we are actively exploring.

What is Kencana Petroleum's competitive edge?

Consistency and commitment are the Group's hallmarks. In the industry, Kencana Petroleum is seen as a company that puts its money where its mouth is. Our strong project execution and commitment to meeting delivery deadlines speak volumes about our capabilities. In fact, our mantra is: "We Commit, We Deliver". We have built our reputation on the strength of how and when we deliver, and will continue to focus on these fundamentals.

Another key strength of ours would be our ability to meet current market demand as well as stay ahead of the technology curve. This involves working closely with industry folks as well as research and development companies to ensure we understand the future requirements of the industry. We are always ready to invest in both technology and people who can do their part to ensure a good future for the Group.

Other than this, we have a competitive advantage over others because we offer a combination of elements that keeps oil and gas players coming back to us. Other than our offering of a full suite of integrated services, Kencana Petroleum's proposition also includes:

- a 66,000 m² covered fabrication area that can run 24/7 to fast-track large projects;
- a 48,000 mt annual production capacity;
- 20,000 mt, 5,000 mt and 1,500 mt load-out jetties;
- a 490 m waterfront;
- excellent fabrication facilities and modern machinery;
- an in-house engineering capability and sub-sea fabrication experience;
- a strong technological edge through strategic alliances and technology acquisitions;
- systematic production methods which enable us to reduce costs, increase efficiency and keep to our timelines;
- stringent international quality control standards and a strong safety track record; and
- a solid market reputation and established project track record; plus an experienced management and a skilled technical team with proven expertise.

What can we expect from Kencana Petroleum in the coming year?

Despite the lower oil price environment, most oil majors have reaffirmed their commitment to existing contracts and their respective pre-planned capex budgets in the coming year. As such, we expect ample work opportunities for oil and gas support services players. How profitable these players will be ultimately boils down to how well they manage their cost structures given that the oil majors will be scrutinising their own cost of doing business. On our part, Kencana Petroleum remains committed to working hard to maintain our profit margins, productivity and efficiency to deliver good returns to our shareholders.

As we diversify into new business segments and balance out our pure contracting revenue with long-term recurring income streams, we are confident of securing sustainable growth and spreading our risks. On top of our established EPCIC and marine engineering businesses, we are looking to further develop our offshore support services activities to expand our earnings base, while our drilling operations will begin making contributions when the KM-1 is deployed.

Upon the KM-1's deployment, we will require marine support vessels. We are currently looking into this as it is good time to invest given that premiums for such assets have gone down. Last year's credit crunch meant we were not able to embark on projects we had hoped to embark on. During a more robust market, we expect that financing will be more readily available but we will wait patiently to see how the operating environment develops.

The Group has truly grown from strength and we have been building more and more things in-house within our own facilities. Although we are to some extent still bringing in outside expertise to undertake design work, our own management and staff are already on a steep learning curve. In due course, we will have a wealth of experience and expertise to handle most major projects within the Group and keep more profits within the Group.

As we push to increase revenue streams contribution from projects secured abroad, we will focus and promote ourselves in the Middle East, India, Vietnam and Australia, among other viable markets. This will help us spread our risk as well as take us closer towards realising our goal of securing approximately 50% of our revenue from regional projects.

Going forward, we will continue to position ourselves by growing, expanding and planning our business activities in a strategic manner to meet current market demands as well as future needs. As always, our goal will be to build a position of strength from which we can provide the right services at the right time and at the right price. As we pursue our vision of becoming a major integrated services and solutions provider for the upstream oil and gas industry in the Asia Pacific region, we are confident of maintaining our profitability in the coming financial year.

Dato' Mokhzani Mahathir
GROUP CHIEF EXECUTIVE OFFICER

26 Sep 2008 • Visit by the Minister of Transport, Datuk Seri Ong Tee Keat. *Kencana Fabrication Yard, Lumut.*

16 Dec 2008 • 4th Annual General Meeting. *KL Hilton, Kuala Lumpur.*

20 Dec 2008 • Nebula Pipe-lay Barge Sailaway Ceremony. *Kencana Fabrication Yard, Lumut.*

15 May 2009 • Murphy Sarawak Golok-A Central Production Platform & Golok-B Production Platform Sailaway Ceremony. *Kencana Fabrication Yard, Lumut.*

10 - 12 June 2009 • 12th Asian Oil, Gas, Petrochemical Engineering Exhibition (OGA 2009). *Kuala Lumpur Convention Centre, Kuala Lumpur.*

9 July 2009 • Launch of KPV Kapas, Company's first anchor handling tug and supply vessel onto water at Nam Cheong Dockyard. *Miri, Sarawak.*

26 July 2009 • Launch of KM-1, tender assisted drilling rig onto water. *Kencana Fabrication Yard, Lumut.*

8 August 2009 • Merdeka Millennium Endurance Race 2009. *Sepang F1 International Circuit, Sepang.*

21 August 2009 • KPMG Shareholder Value Award 2009. *Sime Darby Convention Centre, Kuala Lumpur.*

24-28 August 2009 • Main sponsor for Malaysian National Mountain Bike Team in Tour De Timor. *Timor Leste.*

7 Sep 2009 • Majlis Berbuka Puasa Bersama Anak-Anak Madrasah Ummu Sofia. *Teluk Batik Resort, Lumut.*

4 October 2009 • KHL Annual Golf Tournaments. *Damai Laut, Lumut.*

20 October 2009 • KHL received ISO 14001:2004 Environment Management System and BS OHSAS 18001:2007 Occupational Health & Safety Management System and 10 Million without Lost Time Incidents (LTI) Ceremony. *Kencana Fabrication Yard, Lumut.*

The Board of Directors (the Board) of Kencana Petroleum Berhad (Kencana Petroleum) confirms that throughout the financial year ended 31 July 2009, 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 of 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 is comprised of eight (8) directors, with one (1) independent non-executive Chairman, five (5) non-independent executive directors and two (2) independent non-executive directors. The Board is satisfied that its current composition fairly reflects the investment of the Company, and that its current size and composition are effective for the proper functioning of the Board. The independent non-executive directors are independent of management and are free from any businesses or other relationships that could materially interfere with the exercise of independent judgment. The independent directors provide a broader view and an independent and balanced assessment.

In adherence to the requirement of the Code, which advocates the segregation of the positions of Chairman and the Group CEO, the Group has ensured a separate non-executive independent Chairman and a separate Group CEO appointed. This is to ensure clear division of responsibilities between the executive and the non-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;

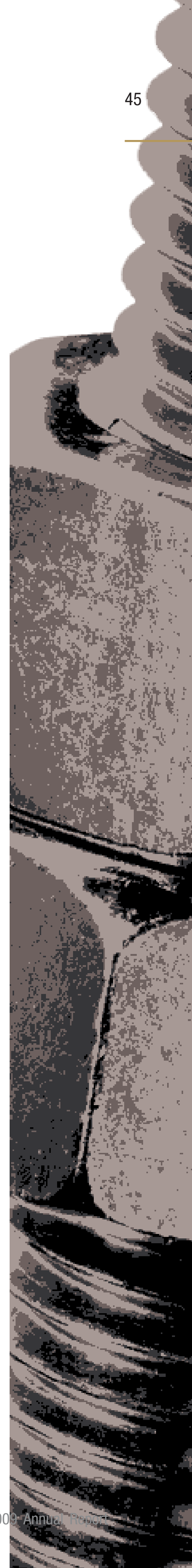
(b) Identifying principal risks and ensuring the implementation of appropriate systems to manage these risks;

(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.

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 MEETINGS

During the financial year ended 31 July 2009, 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 2009 are as follows:

Directors	No. of attendance and meetings
Tan Sri Nik Mohamed bin Nik Yaacob	3/4
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	4/4

BOARD COMMITTEES

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

The terms of reference and activities of the committees during the financial year ended 31 July 2009 are set out in Board Committees on pages 47 to 52 of this Annual Report.

APPOINTMENT AND RETIREMENT OF DIRECTORS

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

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

At the forthcoming 5th Annual General Meeting, Dato' Mokhzani bin Mahathir, Chong Hin Loon and Mohd Adzahar bin Abdul Wahid are due to retire pursuant to Article 94. Being eligible, they have offered themselves for re-election.

DIRECTORS' TRAINING

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

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

DIRECTORS' REMUNERATION

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

The Remuneration Committee is 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 2009 are as follows:

	Executive Directors RM	Non-Executive Directors RM
Salary	1,864,000	–
Fees	–	165,000
Allowances	744,000	30,000
*Other Emoluments	2,156,879	–
Total	4,764,879	195,000

* *Other emoluments include bonuses and statutory contributions*

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

Range of Remuneration	Number of Directors
Independent Director	
RM50,001 – RM100,000	3
Executive Director	
RM400,001 – RM450,000	1
RM450,001 – RM500,000	1
RM600,001 – RM650,000	1
RM1,000,001 – RM1,500,000	1
RM1,500,001 – RM2,000,000	1

Accountibility and audit

FINANCIAL REPORTING

The Board takes responsibility for ensuring that the financial statements of the Group and of the Company give a true and fair view of the state of affairs of the Group and of the Company as required under the Companies Act, 1965. Efforts are made to ensure that the financial statements comply with the provisions of the Companies Act, 1965 and the applicable approved financial reporting standards in Malaysia. The Board also ensures the accuracy and timely release of the Group's quarterly and annual financial results to Bursa 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 54 of this Annual Review.

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 Chairman of the Board in the AGM presents to the shareholders, the Company's operations in the financial year and outlines future prospects of the Group. Further, the Group's Company Secretary could provide shareholders and investors with a channel of communication on which they can provide feedback to the Group. Queries regarding the Group may be conveyed to the Company Secretary at the Company's registered address.

DIALOGUE BETWEEN THE COMPANY AND INVESTORS

The 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 discussion with analysts and institutional shareholders regularly. Presentations based on permissible disclosure are made to explain the Group's performance and major development plans. However, price sensitive information about the Group is not discussed in these exchanges until after the prescribed announcement to the Bursa Securities has been made.

The Board of Directors (the Board) of Kencana Petroleum Berhad (Kencana Petroleum) is pleased to present the report of Board Committees for the financial year 2009.

Audit and Risk Management Committee ("ARMC")

OBJECTIVES

The primary objective of the ARMC is to assist the Board in fulfilling its fiduciary duties relating to corporate accounting and reporting practices of the Company and its subsidiary companies (the Group).

Additionally, the ARMC shall:

(a) evaluate and appraise the quality of audits conducted by both the internal and external auditors;

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

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

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

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

COMPOSITION OF ARMC

The ARMC shall be appointed from amongst the Board and shall comprise the following:

(a) a minimum of three (3) members;

(b) all members shall be non-executive directors with a majority of whom are independent directors;

(c) all members should be financially literate with at least one (1) member of the Committee must be an accountant as defined by the Bursa Malaysia Securities Berhad ("Bursa Securities") Listing Requirements;

(d) the members of the Committee shall elect a Chairman from among themselves who shall be an independent director;

(e) all members of the Committee shall hold office only for so long as they serve as directors of the Company;

(f) no alternate director of the Board shall be appointed as a member of the ARMC; and

(g) 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.

COMMITTEE MEETINGS

The Committee shall meet at least four (4) times a year, with due notice of issues to be discussed, and should record its conclusion in discharging its duties and responsibilities. Additional meetings may be called at any time if so requested by any Committee 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. The Secretary shall be responsible for keeping the minutes of meetings of the Committee and circulating them to the Committee members.

All or any members of the Committee may participate in a meeting of the Committee by means of a conference telephone 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 Committee's decision arise between meetings, such issues shall be resolved through circular resolution. 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 Committee.

The external auditors have the right to appear at any meeting of the ARMC and shall appear before the Committee when required to do so by the Committee. 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.

AUTHORITIES

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

(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 Company, whenever deemed necessary at least twice a year.

DUTIES AND RESPONSIBILITIES

The duties and responsibilities of the ARMC are as follows:

(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 accounting standards and other legal requirements; and
- compliance with Bursa Securities Listing 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 Company and the management's response to such letter;

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

(e) to do the following, in relation to the internal audit function:
- review the adequacy of the scope, functions, competency and resources of the internal audit functions, 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, the audit fee and any questions of resignation or dismissal;

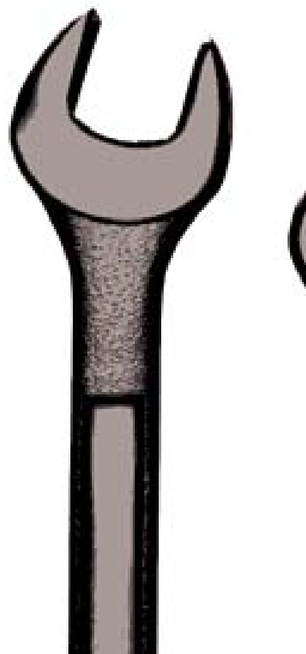
(g) to review all areas of significant financial risk and the arrangements in place to contain those risks to acceptable levels;

(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; and

(k) 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.



INTERNAL AUDIT FUNCTION

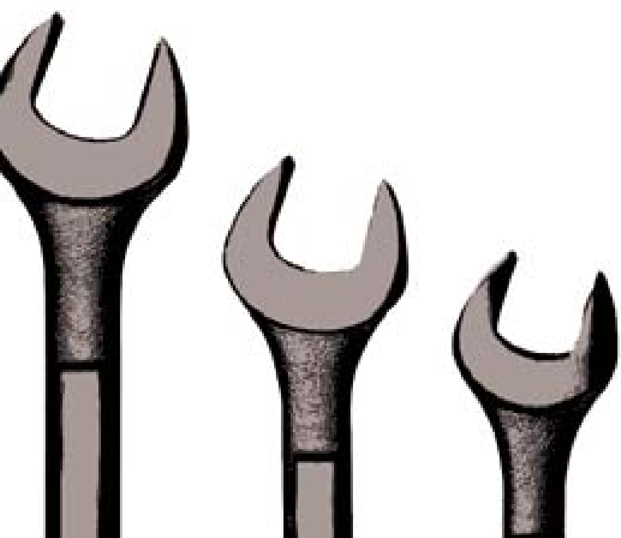
The Group has set up its own Internal Audit and Risk Management Department. The internal audit review of the Group's operations encompasses an independent assessment of the Group's compliance with its internal controls and shall make recommendations for improvements.

The department provides an independent appraisal to the Group. This is to provide the ARMC and thereafter the management with independent and objective advice on the effectiveness of the Group's businesses and operations. The Group recognises that it is the management's responsibility to analyse risks and to devise and implement effective systems of internal control. The fulfillment of the above objective is achieved by providing reasonable assurance through an effective and efficient programme of independent review across the Group to the management and to the Board on an on-going basis. This 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, 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 internal audit function were outsourced to an independent internal audit service provider. As such, the areas under review were based on areas of high risk that was independently assessed.

The cost incurred for the internal audit function of the Group in respect of the financial year ended 31 July 2009 was approximately RM151,000 (excluding transportation, accommodation and other miscellaneous expenses).

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

There were five (5) meetings held during the financial year 31 July 2009 and the details of attendance are as follows:

Name of ARMC Members	No. of attendance and meetings
Mohd Adzahar bin Abdul Wahid	5/5
Tan Sri Nik Mohamed bin Nik Yaacob	4/5
Syed Zaid bin Syed Jaffar Albar	3/5

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 for the financial year; and
9. Reviewed and verified the related party transactions.

Remuneration committee

OBJECTIVE

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

COMPOSITION OF REMUNERATION COMMITTEE

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

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

Name of Remuneration Committee Members

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

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

Dato' Mokhzani bin Mahathir
Member, Non-Independent Executive Director

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

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

REMUNERATION POLICY

The Company aims to align the interests of its executive director as closely as possible with the interests of shareholders in promoting the Group's strategies. Salary and benefits are competitive and are reviewed annually. In making recommendations on the framework for retaining and rewarding executive directors, the Remuneration Committee reviews the total reward package, making use of internally and externally published information. The salaries of the executive directors are proposed by the Remuneration Committee annually after considering the Group's performance, market conditions, the level of increase awarded to employees throughout the business and the need to reward individual performance.

AUTHORITIES

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

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

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

DUTIES AND RESPONSIBILITIES

The duties and responsibilities of the Committee shall be:

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

Nomination committee

OBJECTIVE

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

COMPOSITION OF NOMINATION COMMITTEE

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

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

Name of Nomination Committee Members

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

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

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

NOMINATION COMMITTEE POLICY

Fundamentally, new appointments to the Board are made by the whole Board and potential Non-Executive Directors are suggested by any Director and reviewed by the Nomination Committee before the candidate is being approached. Any new appointment is made by the Board only after a recommendation from the Nomination Committee. In view of the essential requirement for potential Directors to understand the nature of responsibilities of the Board and the extensive operations of the Group, it is vital for the Group CEO to take part in the briefing of any nominees to the Board.

Accordingly, the Nomination Committee is structured as a subcommittee of the whole Board so that all Directors can participate in the nomination process.

AUTHORITIES

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

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

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

DUTIES AND RESPONSIBILITIES

The duties and responsibilities of the Committee shall be:

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

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

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

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

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

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

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

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

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

Options committee

OBJECTIVE

The Options Committee is entrusted with the responsibility of overseeing the administration of the Company's Employees' Share Option Scheme ("ESOS") in accordance with the ESOS By-Laws to determine participation eligibility, option offers and share allocation and to attend to such other matters as may be required.

The Options Committee shall be appointed by the Board from amongst the directors of the Company comprises the following members:

Name of Options Committee Members

Dato' Mokhzani Bin Mahathir
Chairman, Non-Independent Executive Director

Chong Hin Loon
Member, Non-Independent Executive Director

Yeow Kheng Chew
Member, Non-Independent Executive Director

DUTIES AND RESPONSIBILITIES

The duties and responsibilities of the Options Committee shall be:

(a) to determine participation eligibility and to decide on the number of options to be offered to eligible employees and/or persons as stipulated in the By-Laws, throughout the duration of the scheme;

(b) to ensure the maximum number of new options that may be offered to eligible employees and/or persons shall not exceed the limit set against their respective categories and subject to the criteria for allocation as set out in the By-Laws;

(c) to make offers to eligible employees and/or persons who are entitled to participate in the scheme, after taking into consideration the performance, seniority, number of years in service, employee grading and/or the potential contribution of the eligible employees and/or persons; and

(d) to recommend to the Board, when necessary, any amendments to be made to all or any of the provisions of the scheme, subject to the approvals of all relevant authorities and the Company's shareholders at a general meeting.

1. Status of utilisation of proceeds raised from corporate proposals

The Company did not raise any fund from existing shareholders, potential shareholders or the public during the financial year ended 31 July 2009.

2. Share buybacks

The Company did not enter into any share buyback transactions during the financial year ended 31 July 2009.

3. Options, warrants or convertible securities

The Company has not issued any options, warrants or convertible securities during the financial year ended 31 July 2009 other than the granting of options under the Employees' Share Option Scheme (ESOS) as disclosed in Note 15 to the Financial Statements.

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

The Company did not sponsor any ADR or GDR programme during the financial year ended 31 July 2009.

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 2009.

6. Non-audit fees

The non-audit fee incurred for services rendered to the Company or its subsidiaries by the Company's auditors for the financial year ended 31 July 2009 amounted to RM10,000.

7. Variation in results

There are no variation between the unaudited results and the audited results for the Group for the financial year ended 31 July 2009.

8. Profit guarantee

The Company did not provide any profit guarantee during the financial year ended 31 July 2009.

9. Material contracts

There were no material contracts entered into by the Company and/or its subsidiaries during the financial year ended 31 July 2009, which involves the interest of Directors and major shareholders.

10. Revaluation policy

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

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.

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 operating and financial performance and key business indicators such as resource utilisation, cash flow performance and project achievement;

(c) A budgeting process where operating units prepare 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, which is partially outsourced to external consultants;

(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.

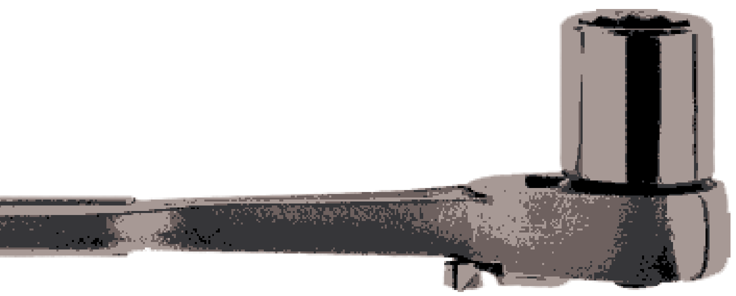
II. Review and approve risk management policies and risk tolerance limits.

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).



The financial statements of the Group and of the Company are drawn up in accordance with the applicable approved financial reporting standards in Malaysia and the provisions of the Companies Act, 1965. The Directors are responsible for ensuring that the financial statements 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:

(a) Selected suitable accounting policies and applied them consistently;
(b) Made judgments and estimates that are reasonable and prudent;
(c) Ensured that all applicable accounting standards have been followed; and
(d) Prepared financial statements on a going concern basis as the Directors have a reasonable expectation having made appropriate enquiries that the Group and the Company have adequate resources to continue in operational existence in the foreseeable future.

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

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

financial statements

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 2009.

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	118,203	6,053

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 RM4,510,000 in respect of the year ended 31 July 2008 on 10 March 2009.

The Directors recommended a first and final single tier dividend of 5.00% per ordinary share of RM0.10 each totalling RM4,515,000 subject to the approval of the shareholders at the forthcoming Annual General Meeting in respect of the financial year ended 31 July 2009, based on the issued and paid-up share capital of 902,955,500 ordinary shares of RM0.10 each as at 31 July 2009.

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
Cher Lee Kiat
Azmi bin Ismail
Mohd Adzahar bin Abdul Wahid
Syed Zaid bin Syed Jaffar Albar

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 1.8.2008	**Bought**	**Sold**	**At 31.7.2009**
Shareholdings in which Directors have direct interest				
The Company				
Dato’ Mokhzani bin Mahathir	4,150,000	–	–	**4,150,000**
Chong Hin Loon	101,300,000	–	(5,000,000)	**96,300,000**
Yeow Kheng Chew	6,750,000	500,000	–	**7,250,000**
Cher Lee Kiat – own	3,250,000	–	(3,250,000)	**–**
– others *	4,000,000	1,580,600	(1,915,900)	**3,664,700**
Azmi bin Ismail	250,000	–	–	**250,000**

* Shares owned by Wee Yeow Tin, the wife of 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 Cher Lee Kiat.

	Number of ordinary shares of RM0.10 each			
Shareholdings in which Directors have indirect interest	**At 1.8.2008**	**Bought**	**Sold**	**At 31.7.2009**
The Company				
Dato’ Mokhzani bin Mahathir	383,536,872	–	(23,197,375)	**360,339,497**
Cher Lee Kiat	29,089,600	18,288,000	(10,000,000)	**37,377,600**

By virtue of Khasera Baru Sdn. Bhd. owning 360,339,497 shares, representing 39.91% 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 37,377,600 shares, representing 4.14% equity interest in the Company, 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 1.8.2008	**Bought**	**Sold**	**At 31.7.2009**
Kencana Steelworks Sdn. Bhd.				
– Dato' Mokhzani bin Mahathir	1,000*	–	–	**1,000***
Kencana Mermaid Drilling Sdn. Bhd.				
– Dato' Mokhzani bin Mahathir	60,000	–	–	**60,000**

* Deemed interested 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 2009 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 2009 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 28 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

During the financial year, the Company issued 955,500 new ordinary shares of RM0.10 each, for cash, arising from the exercise of ESOS at exercise prices of RM1.35 and RM1.40 per ordinary share respectively.

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 2009, are disclosed in Note 15 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 Securities from time to time;

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

Options granted over unissued shares (continued)

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 1.8.2008**	**Granted**	**Lapsed/ Exercised**	**At 31.7.2009**
10.4.2008	RM1.40	15,430,000	–	(1,740,000)	**13,690,000**
17.9.2008	RM1.35	–	2,800,000	(550,000)	**2,250,000**
21.5.2009	RM1.60	–	100,000	–	**100,000**

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	1.40	600
Mohd Shafiee bin Surip	10.4.2008	1.40	500
Ng Ying Sum	10.4.2008	1.40	460
Choon Siew Thong	10.4.2008	1.40	350
Koh Liong See	10.4.2008	1.40	320
Chong Tai Hing	10.4.2008	1.40	300
Chook Yew Kow	10.4.2008	1.40	300
Ng Kwai	10.4.2008	1.40	300
Roy Tung Onn Kuen	10.4.2008	1.40	300
Jamalludin Bin Obeng	17.9.2008	1.35	1,000
Ang Choon Poh	17.9.2008	1.35	700
Ow Siew Wai	17.9.2008	1.35	300
Liew Yam Siew	10.4.2008	1.40	200
Liew Yam Siew	21.5.2009	1.60	100

Other statutory information

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

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

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

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

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

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

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

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

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

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

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

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

In the opinion of the Directors, the financial performance of the Group and of the Company for the financial year ended 31 July 2009 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.

Subsequent event

Conversion of Teras Muhibah Sdn Bhd ("TMSB") to a subsidiary

Kencana Petroleum Ventures Sdn Bhd ("KPV"), a wholly-owned subsidiary of the Company, had on 6 August 2009 entered into a Supplemental Agreement to subscribe for 162,000 new ordinary shares of RM1.00 each in TMSB. With the subscription, KPV's equity stake in TMSB increased from 27% to 67%, resulting in TMSB to become a subsidiary of the Company.

KPV also subscribed for 5,146,000 redeemable preference shares of RM1.00 each in TMSB on 6 August 2009.

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 2009

balance sheets at 31 July 2009

	Note	Group 2009 RM'000	Group 2008 RM'000	Company 2009 RM'000	Company 2008 RM'000
Assets					
Property, plant and equipment	3	**245,556**	209,023	**939**	315
Prepaid lease payments	4	**63,615**	64,210	**–**	–
Goodwill	5	**36,166**	36,166	**–**	–
Investments in subsidiaries	6	**–**	–	**113,029**	100,605
Investments in associates	7	**56,213**	28,375	**–**	–
Investments in jointly controlled entities	8	**9**	19	**–**	–
Other investments	9	**68**	68	**–**	–
Receivables, deposits and prepayments	11	**–**	–	**78,210**	64,064
Total non-current assets		**401,627**	337,861	**192,178**	164,984
Inventories	10	**28,293**	817	**–**	–
Receivables, deposits and prepayments	11	**259,874**	271,803	**8,655**	8,409
Current tax assets		**1,254**	628	**14**	–
Cash and cash equivalents	12	**253,893**	259,523	**11,345**	2,321
Total current assets		**543,314**	532,771	**20,014**	10,730
Total assets		**944,941**	870,632	**212,192**	175,714
Equity					
Share capital	13	**90,296**	90,200	**90,296**	90,200
Reserves	14	**82,653**	78,797	**82,653**	78,797
Retained profits		**255,968**	142,263	**8,059**	6,504
Total equity		**428,917**	311,260	**181,008**	175,501
Liabilities					
Loans and borrowings	16	**155,988**	59,904	**267**	–
Deferred tax liabilities	17	**24,847**	22,793	**–**	–
Total non-current liabilities		**180,835**	82,697	**267**	–
Loans and borrowings	16	**56,780**	90,977	**30,080**	–
Payables and accruals	18	**276,162**	383,167	**837**	205
Tax liabilities		**2,247**	2,531	**–**	8
Total current liabilities		**335,189**	476,675	**30,917**	213
Total liabilities		**516,024**	559,372	**31,184**	213
Total equity and liabilities		**944,941**	870,632	**212,192**	175,714

The notes on pages 69 to 115 are an integral part of these financial statements.

income statements for year ended 31 July 2009

	Note	Group 2009 RM'000	Group 2008 RM'000	Company 2009 RM'000	Company 2008 RM'000
Revenue		**1,140,843**	1,452,162	**16,067**	13,887
Costs of services rendered		**(932,621)**	(1,293,001)	**–**	–
Gross profit		**208,222**	159,161	**16,067**	13,887
Other income		**8,384**	5,392	**–**	–
Administrative expenses		**(57,561)**	(41,609)	**(6,579)**	(4,103)
Results from operating activities		**159,045**	122,944	**9,488**	9,784
Interest income		**4,072**	5,092	**107**	93
Finance costs		**(10,442)**	(7,233)	**(837)**	–
Operating profit	19	**152,675**	120,803	**8,758**	9,877
Share of profit after tax of associates		**141**	307	**–**	–
Share of (loss)/profit after tax of jointly controlled entities		**(10)**	15	**–**	–
Profit before tax		**152,806**	121,125	**8,758**	9,877
Tax expense	21	**(34,603)**	(36,055)	**(2,705)**	(2,679)
Profit for the year		**118,203**	85,070	**6,053**	7,198
Attributed to:					
Equity holders		**118,203**	85,110		
Minority interest		**–**	(40)		
		118,203	85,070		
Basic earnings per ordinary share (sen)	23	**13.10**	9.49		
Diluted earnings per ordinary share (sen)	23	**13.05**	9.45		

The notes on pages 69 to 115 are an integral part of these financial statements.

statement of changes in equity for year ended 31 July 2009

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
	← Non-distributable		→	Distributable			
At 1 August 2007	89,150	73,510	123	57,153	219,936	–	219,936
Profit for the year	–	–	–	85,110	85,110	(40)	85,070
Share options exercised	1,050	4,200	–	–	5,250	–	5,250
Share-based payments	–	–	965	–	965	–	965
Transfer to share premium for share options exercised	–	420	(420)	–	–	–	–
Issuance of ordinary shares of a subsidiary to minority shareholders	–	–	–	–	–	40	40
Share issue expenses	–	(1)	–	–	(1)	–	(1)
At 31 July 2008/1 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 22)	–	–	–	(4,510)	(4,510)	–	(4,510)
At 31 July 2009	90,296	79,682	2,971	255,968	428,917	–	428,917
	Note 13	Note 14	Note 14				

Company	Share capital RM'000	Share premium RM'000	Share option reserve RM'000	(Accumulated losses)/ Retained profits RM'000	Total equity RM'000
	← Non-distributable		→	Distributable	
At 1 August 2007	89,150	73,510	123	(694)	162,089
Profit for the year	–	–	–	7,198	7,198
Share options exercised	1,050	4,200	–	–	5,250
Share-based payments	–	–	965	–	965
Transfer to share premium for share options exercised	–	420	(420)	–	–
Shares issue expenses	–	(1)	–	–	(1)
At 31 July 2008/1 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 22)	–	–	–	(4,510)	(4,510)
At 31 July 2009	90,296	79,682	2,971	8,059	181,008
	Note 13	Note 14	Note 14		

The notes on pages 69 to 115 are an integral part of these financial statements.

	Note	Group 2009 RM'000	Group 2008 RM'000	Company 2009 RM'000	Company 2008 RM'000
Cash flows from operating activities					
Profit before tax		**152,806**	121,125	**8,758**	9,877
Adjustments for:					
Amortisation of prepaid lease payments		**683**	557	**–**	–
Depreciation of property, plant and equipment		**17,205**	12,426	**132**	19
Finance costs		**10,442**	7,233	**837**	–
(Gain)/Loss on disposal of property, plant and equipment		**(80)**	(79)	**1**	–
Interest income		**(4,072)**	(5,092)	**(107)**	(93)
Property, plant and equipment written off		**86**	272	**2**	–
Share-based payments		**2,642**	965	**218**	360
Share of profit after tax of associates		**(141)**	(307)	**–**	–
Share of loss/(profit) after tax of jointly controlled entities		**10**	(15)	**–**	–
Operating profit before changes in working capital		**179,581**	137,085	**9,841**	10,163
Inventories		**(27,476)**	(250)	**–**	–
Receivables, deposits and prepayments		**11,929**	(25,195)	**(246)**	(38,210)
Payables and accruals		**(107,005)**	108,093	**632**	73
Cash generated from/(used in) operations		**57,029**	219,733	**10,227**	(27,974)
Taxes paid		**(33,459)**	(33,988)	**(2,727)**	(8)
Interest paid		**(10,442)**	(7,233)	**(837)**	–
Net cash generated from/(used in) operating activities		**13,128**	178,512	**6,663**	(27,982)
Cash flows from investing activities					
Acquisition of shares in associates		**(27,697)**	(26,836)	**–**	–
Prepaid lease payments		**(88)**	(6,070)	**–**	–
Acquisition of property, plant and equipment	(i)	**(46,005)**	(15,585)	**(359)**	(334)
Interest received		**4,072**	5,092	**107**	93
Net cash outflow from acquisition of subsidiaries		**–**	(72,324)	**–**	–
Proceeds from disposal of property, plant and equipment		**903**	354	**–**	–
Increase in equity interest in a subsidiary		**–**	–	**(10,000)**	–
Net cash used in investing activities		**(68,815)**	(115,369)	**(10,252)**	(241)

The notes on pages 69 to 115 are an integral part of these financial statements.

	Note	Group 2009 RM'000	Group 2008 RM'000	Company 2009 RM'000	Company 2008 RM'000
Cash flows from financing activities					
Net proceeds of borrowings		**53,405**	27,552	**29,947**	–
Decrease in pledged deposits placed with licensed banks		**8,351**	3,770	**–**	–
Proceeds from issuance of shares		**1,323**	5,250	**1,323**	5,250
Proceeds from issuance of shares to minority interest of a subsidiary		**–**	40	**–**	–
Share issue expenses		**(1)**	(1)	**(1)**	(1)
Dividends paid to shareholders		**(4,510)**	–	**(4,510)**	–
Advances to subsidiaries		**–**	–	**(14,146)**	–
Net cash generated from financing activities		**58,568**	36,611	**12,613**	5,249
Net increase/(decrease) in cash and cash equivalents		**2,881**	99,754	**9,024**	(22,974)
Cash and cash equivalents at 1 August		**226,640**	126,886	**2,321**	25,295
Cash and cash equivalents at 31 July	(ii)	**229,521**	226,640	**11,345**	2,321

(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 RM54,647,000 (2008 - RM27,167,000) and RM759,000 (2008 - RM334,000) respectively, of which RM8,642,000 (2008 - RM11,582,000) and RM400,000 (2008 - Nil) 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 2009 RM'000	Group 2008 RM'000	Company 2009 RM'000	Company 2008 RM'000
Cash and bank balances (Note 12)	**81,151**	200,292	**3,907**	306
Deposits placed with licensed banks (Note 12)	**172,742**	59,231	**7,438**	2,015
Bank overdrafts (Note 16)	**(179)**	(339)	**–**	–
	253,714	259,184	**11,345**	2,321
Less: Deposits pledged (Note 12)	**(24,193)**	(32,544)	**–**	–
	229,521	226,640	**11,345**	2,321

The notes on pages 69 to 115 are an integral part of these 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
Lot 50, Jalan BRP 8/2
Persiaran Bukit Rahman Putra 3
Perusahaan Bukit Rahman Putra
47000 Sungai Buloh
Selangor Darul Ehsan

50-2-2, Level 2
Wisma UOA Damansara
50 Jalan Dungun
Damansara Heights
50490 Kuala Lumpur

The consolidated financial statements as at and for the financial year ended 31 July 2009 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 2009 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.

Kencana Petroleum Berhad obtained control over the financial and operating policies of its subsidiary, Kencana Torsco Sdn Bhd (formerly known as Torsco Sdn Bhd) on 30 November 2007. In line with the above, the results of Kencana Petroleum Group for the financial year ended 31 July 2008 took into account the results of the subsidiary from 1 December 2007 to 31 July 2008.

The financial statements were approved by the Board of Directors on 28 October 2009.

1. Basis of preparation

(a) Statement of compliance

The financial statements of the Group and of the Company have been prepared in accordance with Financial Reporting Standards ("FRSs"), 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:

FRSs/Interpretations	Effective date
FRS 4, *Insurance Contracts*	1 January 2010
FRS 7, *Financial Instruments: Disclosures*	1 January 2010
FRS 8, *Operating Segments*	1 July 2009
FRS 123, *Borrowing Costs*	1 January 2010
FRS 139, *Financial Instruments: Recognition and Measurement*	1 January 2010
Amendments to FRS 1, *First-time Adoption of Financial Reporting Standards* and FRS 127, *Consolidated and Separate Financial Statements: Cost of an Investment in a Subsidiary, Jointly Controlled Entity or Associate*	1 January 2010
Amendments to FRS 2, *Share-based Payment: Vesting Conditions and Cancellations*	1 January 2010
IC Interpretation 9, *Reassessment of Embedded Derivatives*	1 January 2010
IC Interpretation 10, *Interim Financial Reporting and Impairment*	1 January 2010
IC Interpretation 11, FRS 2 - *Group and Treasury Share Transactions*	1 January 2010
IC Interpretation 13, *Customer Loyalty Programmes*	1 January 2010
IC Interpretation 14, FRS 119 - *The Limit on a Defined Benefit Asset, Minimum Funding Requirements and Their Interaction*	1 January 2010

The Group and the Company plan to apply the abovementioned FRSs/Interpretations from the annual period beginning 1 August 2010 (except for FRS 4, IC Interpretations 13 and 14 which are not applicable to the Group and the Company).

The impact of applying FRS 7 and FRS 139 on the financial statements upon first adoption as required by paragraph 30(b) of FRS 108, Accounting Policies, Changes in Accounting Estimates and Errors is not disclosed by virtue of the exemptions given in the respective FRSs. The initial application of the other standards, amendments and interpretations is not expected to have any material financial impact on the financial statements.

(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 presented in RM has been rounded to the nearest thousand, unless otherwise stated.

1. Basis of preparation (continued)

(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 Note 5 - impairment test of intangible assets.

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.

2. Significant accounting policies (continued)

(a) Basis of consolidation (continued)

(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).

(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.

2. Significant accounting policies (continued)

(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 the balance sheet date are retranslated to the functional currency at the exchange rate at that date. Non-monetary assets and liabilities denominated in foreign currencies are translated at exchange rates at the dates of the transactions 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. Foreign currency differences arising on retranslation are recognised in the income statements.

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

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

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 operating expenses" respectively in the income statements.

(ii) Subsequent costs

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

2. Significant accounting policies (continued)

(c) Property, plant and equipment (continued)

(iii) Depreciation

Depreciation is recognised in the income statement on a straight-line basis over the estimated useful lives of each part of an item of property, plant and equipment. Leased assets are depreciated over the shorter of the lease term and their useful lives unless it is reasonably certain that the Group will obtain ownership by the end of the lease term. Freehold land is not depreciated. Depreciation commences when the assets are ready for their intended use.

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

The depreciable amount is determined after deducting the residual value.

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

(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 the 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.

2. Significant accounting policies (continued)

(e) Intangible assets

Goodwill

Goodwill/(negative goodwill) arises on business combinations and is measured at cost less any accumulated impairment losses.

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.

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

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

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

(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 investments 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) 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.

2. Significant accounting policies (continued)

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

(i) 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.

(j) 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.

(k) Impairment of assets

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

If any such indication exists, then the asset's recoverable amount is estimated at each reporting date. 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 costs to sell. In assessing value in use, the estimated future cash flows are discounted to their present value using a pre-tax discount rate that reflects current market assessments of the time value of money and the risks specific to the asset. 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.

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 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.

2. Significant accounting policies (continued)

(k) Impairment of assets (continued)

An impairment loss in respect of goodwill is not reversed. In respect of other assets, impairment losses recognised in prior periods are assessed at each reporting date for any indications that the loss has decreased or no longer exists. An impairment loss is reversed if there has been a change in the estimates used to determine the recoverable amount. An impairment loss is reversed only to the extent that the asset's carrying amount does not exceed the carrying amount that would have been determined, net of depreciation or amortisation, if no impairment loss had been recognised. Reversals of impairment losses are credited to the income statements in the year in which the reversals are recognised.

(l) Equity instruments

All equity instruments are stated at cost on initial recognition and are not re-measured subsequently.

Issue expenses

Incremental costs directly attributable to issue of equity instruments are recognised as a deduction from equity.

(m) 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.

(n) 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 straight line method.

(o) Employee benefits

(i) Short term employee benefits

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

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

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

2. Significant accounting policies (continued)

(o) Employee benefits (continued)

(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 options. The amount recognised as an expense is adjusted to reflect the actual number of share options that vest.

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.

(p) 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.

(q) 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.

2. Significant accounting policies (continued)

(r) Revenue

(i) Construction contracts

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

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

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

(ii) Services

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

(iii) Rental income

Rental income is recognised in the income statements on an accrual basis.

(iv) Dividend income

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

(s) 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.

(t) 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 balance sheet date.

Deferred tax liability is recognised for all taxable temporary differences.

2. Significant accounting policies (continued)

(t) Tax expense (continued)

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

(u) Earnings per share

The Group presents basic and diluted earnings per share (EPS) data for its ordinary shares. Basic EPS is calculated by dividing the profit or loss attributable to ordinary 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.

(v) Segment reporting

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

3. Property, plant and equipment

Group	Freehold land and buildings 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	Total RM'000
Cost							
At 1 August 2007	4,183	3,991	84,553	13,542	5,087	49,249	160,605
Acquisition of subsidiaries	–	–	51,388	1,746	1,051	17,172	71,357
Additions	–	–	10,291	2,943	3,142	10,791	27,167
Disposals	–	–	–	(14)	(654)	(45)	(713)
Written off	–	–	(8)	(601)	(6)	–	(615)
At 31 July 2008/1 August 2008	4,183	3,991	146,224	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	4,183	3,991	160,875	20,943	11,925	107,816	309,733

3. Property, plant and equipment (continued)

Group	Freehold land and buildings 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	Total RM'000
Accumulated depreciation							
At 1 August 2007	156	168	3,499	5,829	2,151	6,388	18,191
Acquisition of subsidiaries	–	–	5,527	976	989	11,450	18,942
Depreciation for the year	8	75	2,720	2,213	1,203	6,207	12,426
Disposals	–	–	–	(11)	(385)	(42)	(438)
Written off	–	–	(8)	(331)	(4)	–	(343)
At 31 July 2008/1 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	172	318	15,200	10,694	4,645	33,148	64,177
Carrying amounts							
At 1 August 2007	4,027	3,823	81,054	7,713	2,936	42,861	142,414
At 31 July 2008/1 August 2008	4,019	3,748	134,486	8,940	4,666	53,164	209,023
At 31 July 2009	4,011	3,673	145,675	10,249	7,280	74,668	245,556

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 2007	–	–	–	–
Additions	86	240	8	334
At 31 July 2008/1 August 2008	86	240	8	334
Additions	32	303	424	759
Disposal	–	(1)	–	(1)
Written off	–	(2)	–	(2)
At 31 July 2009	118	540	432	1,090
Accumulated depreciation				
At 1 August 2007	–	–	–	–
Depreciation charge for the year	5	14	–	19
At 31 July 2008/1 August 2008	5	14	–	19
Depreciation charge for the year	11	55	66	132
At 31 July 2009	16	69	66	151
Carrying amount				
At 1 August 2007	–	–	–	–
At 31 July 2008/1 August 2008	81	226	8	315
At 31 July 2009	102	471	366	939

Security

At 31 July 2009, the freehold office premises and leasehold buildings and structures of the Group with a carrying amount of RM84,000 (2008 - RM84,000) and RM49,388,000 (2008 - RM44,920,000), respectively, have been pledged to licensed banks as security for term loan facilities granted to the Group (Note 16).

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 RM57,764,000 (2008 - RM42,256,000) and RM361,000 (2008 - Nil) respectively.

4. Prepaid lease payments

Group	Unexpired period more than 50 years RM'000
Cost	
At 1 August 2007	39,573
Acquisition of subsidiaries	20,486
Additions	6,070
At 31 July 2008/1 August 2008	66,129
Additions	88
At 31 July 2009	66,217
Accumulated amortisation	
At 1 August 2007	597
Acquisition of subsidiaries	765
Amortisation for the year	557
At 31 July 2008/1 August 2008	1,919
Amortisation for the year	683
At 31 July 2009	2,602
Carrying amount	
At 1 August 2007	38,976
At 31 July 2008/1 August 2008	64,210
At 31 July 2009	63,615

Security

At 31 July 2009, the leasehold land of the Group with a carrying amount of RM15,578,000 (2008 - RM15,581,000) has been pledged to a licensed bank as security for term loan facilities granted to the Group (Note 16).

Titles

The issuance of title for eight plots (2008 - eight plots) of land situated at Lumut Port Industrial Park, Kampung Acheh, Mukim of Lumut, District of Manjung, Perak is still pending as at the end of the financial year.

5. Goodwill

	Group RM'000
Cost	
At 1 August 2007	24,239
Acquisition of subsidiaries	11,927
At 31 July 2008/1 August 2008/31 July 2009	36,166
Accumulated impairment losses	–
Carrying amount	
At 1 August 2007	24,239
At 31 July 2008/1 August 2008/31 July 2009	36,166

Impairment testing for cash-generating units containing goodwill

Goodwill has been allocated to the Group's cash generating unit, operating in Malaysia, according to entities as follows:

	Group	
	2009 RM'000	**2008 RM'000**
Kencana HL Sdn Bhd and its subsidiaries ("Kencana HL Group")	**35,396**	35,396
Kencana Pinewell Sdn Bhd	**770**	770
	36,166	36,166

Please refer to Note 6 to the financial statements for the details of Kencana HL 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.

5. Goodwill (continued)

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 2009) is forecasted for the year ending 31 July 2010 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 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 deter potential entrants.

6. Investments in subsidiaries

	Company	
	2009 RM'000	**2008 RM'000**
Unquoted shares, at cost	**110,000**	100,000
Share options granted under ESOS	**3,029**	605
	113,029	100,605

6. Investments in subsidiaries (continued)

On 22 October 2008, the Company subscribed for additional new issues of 9,999,998 ordinary shares of RM1.00 each at par for cash in Kencana Petroleum Ventures Sdn. Bhd.

Details of the subsidiaries are as follows:

Name of subsidiaries	Principal activities	Country of incorporation	Effective ownership interest 2009 %	2008 %
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. (formerly known as Torsco Sdn. Bhd.) and its subsidiaries	Engineering, fabrication and construction works	Malaysia	**100**	100
Kencana Torsco Overseas Sdn. Bhd. (formerly known as Torsco Overseas Sdn. Bhd.)	Provision of engineering, fabrication and construction works	Malaysia	**100**	100
Kencana Torsco Assets Sdn. Bhd. (formerly known as Sang Kee Enterprise Sdn. Bhd.)	Property investment	Malaysia	**100**	100
Sang Kee Feedmills Sdn. Bhd.	Property investment	Malaysia	**100**	100
Kencana Bestwide Sdn. Bhd. and its subsidiary	Engineering, Procurement, Construction (fabrication) and Commissioning ("EPCC"), design and engineering and project management	Malaysia	**100**	100

6. Investments in subsidiaries (continued)

Name of subsidiaries	Principal activities	Country of incorporation	Effective ownership interest 2009 %	2008 %
Kencana Pinewell Sdn. Bhd.	Electrical and instrumentation services	Malaysia	**100**	100
Kencana Petroleum Ventures Sdn. Bhd. and its subsidiary	Investment holding	Malaysia	**100**	100
Kencana Mermaid Drilling Sdn. Bhd.	Offshore drilling and drilling related services in the oil and gas industry	Malaysia	**60**	60

7. Investments in associates

	Group		Company	
	2009 RM'000	**2008 RM'000**	**2009 RM'000**	**2008 RM'000**
Ordinary shares				
Unquoted shares				
– At cost	**54,813**	27,116	**–**	–
– Share of reserves	**1,400**	1,259	**–**	–
	56,213	28,375	**–**	–

7. Investments in associates (continued)

Details of the associates are as follows:

Company	Principal activities	Country	Effective ownership interest 2009 %	2008 %
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**	25.0
MKR-1	Provision of offshore drilling and related services in the oil and gas industry	Singapore	**25.0**	25.0
MKRPL	Leasing activities	Malaysia	**25.0**	–
MEOSSB	Operator of offshore support vessels for the oil and gas industry	Malaysia	**21.0**	–
TMSB	Owner and operator of offshore support vessels for the oil and gas industry	Malaysia	**27.0**	–

BWE	Best Wide Engineering (M) Sdn. Bhd.
MM	Matrix Maintenance Sdn. Bhd.
Skidtec	Skidtec (M) Sdn. Bhd.
MKR-1	Mermaid Kencana Rig 1 Pte Ltd
MKRPL	Mermaid Kencana Rigs (Labuan) Pte Ltd
MEOSSB	Malaysian Engineering & Oilfield Services Sdn Bhd
TMSB	Teras Muhibah Sdn Bhd

MKRPL was incorporated during the year. All associates, other than Skidtec, are audited by other firms of auditors.

7. Investments in associates (continued)

The summarised financial information of the associates are as follows:

2009	**Total Assets RM'000 100%**	**Total Liabilities RM'000 100%**	**Revenue RM'000 100%**	**Net profit/(loss) RM'000 100%**
BWE (a)	**12,741**	**(10,136)**	**21,045**	**470**
MM (a)	**4,638**	**(1,033)**	**3,588**	**470**
Skidtec (b)	**47**	**(58)**	**–**	**(4)**
MKR-1 (a)	**297,419**	**(56,263)**	**–**	**(10)**
MKRPL (a)	**–**	**–**	**–**	**–**
MEOSSB (a)	**1,257**	**(337)**	**–**	**(215)**
TMSB (a)	**4,190**	**(8,028)**	**–**	**(340)**
	320,292	**(75,855)**	**24,633**	**371**

2008				
BWE	8,466	(6,211)	12,557	357
MM	4,995	(1,820)	4,275	667
Skidtec	1	(8)	–	(3)
MKR-1	123,526	(21,119)	–	(1)
	136,988	(29,158)	16,832	1,020

(a) The share of results was based on unaudited financial statements of the associates for the financial year ended 31 July 2009.

(b) The Group has recognised losses relating to Skidtec Sdn. Bhd. of up to RM250 during the financial year ended 31 July 2008 and 31 July 2009 respectively. The Group has no obligation in respect of losses in excess of its capital contribution.

8. Investments in jointly controlled entities

	Group 2009 RM'000	2008 RM'000
At cost:		
Unquoted shares	*	*
Share of reserves	9	19
	9	19

* Denotes RM50

Details of the jointly controlled entities are as follows:

Company	Principal activities	Country of incorporation	Effective ownership interest 2009 %	2008 %
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	50
R.S. Engineering Services & Contracting Co Ltd**@	Dormant	Sudan	35	35

@ Jointly controlled entities not audited by KPMG

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

** The Group has fully written off all debts from the jointly controlled entities. There were no contingencies and commitments relating to the Group interest on the jointly controlled entities.

9. Other investments

	Group	
	2009 RM'000	**2008 RM'000**
Unquoted shares in Malaysia, at cost	**48**	48
Quoted shares in Malaysia, at cost	**62**	62
Less: Accumulated impairment losses	**(42)**	(42)
	20	20
	68	68
Market value of shares quoted in Malaysia	**20**	20

10. Inventories

	Group	
	2009 RM'000	**2008 RM'000**
Raw materials and consumables	**28,293**	817

11. Receivables, deposits and prepayments

	Note	Group 2009 RM'000	Group 2008 RM'000	Company 2009 RM'000	Company 2008 RM'000
Non-current					
Non-trade					
Amounts due from subsidiaries	a	**–**	–	**78,210**	64,064
Current					
Trade					
Trade receivables	b	**98,660**	137,834	**–**	–
Amount due from contract customers	c	**95,109**	96,694	**–**	–
Amounts due from subsidiaries	d	**–**	–	**8,000**	8,000
Amounts due from jointly-controlled entities	e	**–**	3,582	**–**	–
Amount due from associates	e	**45,229**	27,523	**–**	–
		238,998	265,633	**8,000**	8,000
Non-trade					
Other receivables		**8,268**	2,428	**12**	4
Deposits		**1,141**	2,134	**53**	51
Prepayments		**2,167**	1,608	**590**	354
Amount due from associates	e	**9,300**	–	**–**	–
		20,876	6,170	**655**	409
		259,874	271,803	**8,655**	8,409
		259,874	271,803	**86,865**	72,473

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 RM8,473,000 (2008 - RM9,779,000). 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.

11. 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	
	2009 RM'000	**2008 RM'000**
US Dollars	**50,142**	99,741
Singapore Dollars	**137**	33,054
Euro	**–**	415
Pounds Sterling (GBP)	**–**	76

	Group	
	2009 RM'000	**2008 RM'000**
Note c		
Aggregate costs incurred to date	**3,040,888**	2,549,707
Add: Attributable profits less foreseeable losses	**376,160**	303,355
	3,417,048	2,853,062
Less: Progress billings	**(3,422,370)**	(2,935,665)
	(5,322)	(82,603)
Amount due to contract customers (Note 18)	**100,431**	179,297
Amount due from contract customers	**95,109**	96,694

Additions to aggregate costs incurred during the financial year include:

	Group	
	2009 RM'000	**2008 RM'000**
Rental of premises	**1,307**	1,867
Rental of staff quarters	**607**	808
Hiring of plant and equipment	**35,103**	117,847
Hiring of motor vehicles	**1,102**	585

Note d

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

Note e

The amounts due from jointly-controlled entities and associates of the Group are interest free, unsecured and repayable on demand.

12. Cash and cash equivalents

	Group		Company	
	2009 RM'000	2008 RM'000	**2009 RM'000**	2008 RM'000
Cash and bank balances	**81,151**	200,292	**3,907**	306
Deposits placed with licensed banks	**172,742**	59,231	**7,438**	2,015
	253,893	259,523	**11,345**	2,321

Included in deposits placed with licensed banks of the Group is RM24,193,000 (2008 - RM32,544,000) pledged to financial institutions for credit facilities granted to the Group and to the Company as disclosed in Note 16.

13. Share capital

	Amount 2009 RM'000	Number of shares 2009 '000	**Amount 2008 RM'000**	Number of shares 2008 '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	**90,200**	902,000	**89,150**	891,500
Issue of shares under Employees' Share Option Scheme ("ESOS")	**96**	956	**1,050**	10,500
At 31 July	**90,296**	902,956	**90,200**	902,000

During the year, the issued and paid-up share capital of the Company was increased by RM96,000 (2008 - RM1,050,000) by way of allotment and issue of 955,500 (2008 - 10,500,000) ordinary shares of RM0.10 each arising from the exercise of options at exercise prices of RM1.35 and RM1.40 (2008 - RM0.50) per ordinary share respectively under the Company's ESOS.

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 meetings of the Company. All shares rank equally with regard to the Company's residual assets.

The new ordinary shares to be allotted and issued upon the exercise of the options will upon such allotment and issuance, rank pari passu in all respects with the then issued and fully-paid share except that the shares so allotted will not be entitled to any dividends, rights, allotments or other distributions of which is prior to the date of allotment of the new shares.

14. 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.

Retained profits

The Finance Act 2007 introduced a single tier company income tax system with effect from year of assessment 2008. As such, the Section 108 tax credit will be available to the Company until such time the credit is fully utilised or upon expiry of the six-year transitional period on 31 December 2013, whichever is earlier.

15. 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 ("EGM") held on 11 October 2006.

15. Employee benefits (continued)

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

Date of Offer	Number of options over ordinary shares of RM0.10 each	Exercise price RM	Expiry date
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	4,629,000	1.40	14.11.2009
10.04.2008	4,629,000	1.40	14.11.2010
10.04.2008	6,172,000	1.40	14.11.2011
17.09.2008	840,000	1.35	14.11.2009
17.09.2008	840,000	1.35	14.11.2010
17.09.2008	1,120,000	1.35	14.11.2011
21.05.2009	30,000	1.60	14.11.2009
21.05.2009	30,000	1.60	14.11.2010
21.05.2009	40,000	1.60	14.11.2011

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

		Group		Company	
		Number of options		Number of options	
	Exercise Price	2009 '000	2008 '000	2009 '000	2008 '000
At 1 August	1.40	**15,430**	–	**1,455**	–
Granted during the year	1.40	**–**	15,430	**–**	1,455
	1.35	**2,800**	–	**–**	–
	1.60	**100**	–	**–**	–
		18,330	15,430	**1,455**	1,455
Exercised during the year	1.40	**(656)**	–	**(249)**	–
	1.35	**(300)**	–	**–**	–
Lapsed during the year	1.40	**(1,084)**	–	**(278)**	–
	1.35	**(250)**	–	**–**	–
At 31 July		**16,040**	15,430	**928**	1,455

15. Employee benefits (continued)

The options outstanding as at 31 July 2009 have an exercise price of RM1.35, RM1.40 and RM1.60 and remaining contractual life of between 1½ – 2½ years.

During the year, 955,500 (2008 – 10,500,000) share options of the Company were exercised at the exercise prices of RM1.35 and RM1.40 (2008 – RM0.50) per ordinary share respectively. The related weighted average share price at the date of exercise was RM1.80 (2008 – RM2.18) 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

	Granted in 2009	Granted in 2008
Fair value at grant date	**RM0.30 – RM0.62**	RM0.37 – RM0.60
Exercise price	**RM1.35 – RM1.60**	RM1.40
Expected volatility	**39%**	50%
Option life	**1 – 3 years**	1 – 3 years
Risk-free interest rate	**3.99%**	3.37% – 3.43%
Expected staff turnover	**15%**	15%
Expected dividend payout	**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. No other features of the option grant were incorporated into the measurement of fair value.

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	
	2009 RM'000	2008 RM'000	2009 RM'000	2008 RM'000
Total expense recognised as share-based payments	**2,642**	965	**218**	360

16. 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 25.

		Group		Company	
		2009 RM'000	2008 RM'000	2009 RM'000	2008 RM'000
Non-current					
Term loans – secured		**133,777**	41,135	**–**	–
Hire purchase creditors		**22,211**	18,769	**267**	–
		155,988	59,904	**267**	–
Current					
Term loans	– secured	**11,775**	9,892	**–**	–
	– unsecured	**–**	66,474	**–**	–
Bank overdrafts	– unsecured	**179**	339	**–**	–
Revolving credits	– unsecured	**30,000**	–	**30,000**	–
Bankers' acceptances	– secured	**854**	4,298	**–**	–
Hire purchase creditors		**13,972**	9,974	**80**	–
		56,780	90,977	**30,080**	–
		212,768	150,881	**30,347**	–

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
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**

16. Loans and borrowings (continued)

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
2008						
Term loans						
– secured	2009 – 2014	51,027	9,892	11,746	25,894	3,495
– unsecured	2009	66,474	66,474	–	–	–
Bank overdrafts						
– unsecured	2009	339	339	–	–	–
Bankers' acceptances	2009	4,298	4,298	–	–	–
		122,138	81,003	11,746	25,894	3,495
Company						
2009 (2008 – Nil)						
Revolving credits - unsecured	**2010**	**30,000**	**30,000**	**–**	**–**	**–**
		30,000	**30,000**	**–**	**–**	**–**

Hire purchase creditors

Hire purchase creditors are payable as follows:

Group	Gross 2009 RM'000	Interest 2009 RM'000	Principal 2009 RM'000	Gross 2008 RM'000	Interest 2008 RM'000	Principal 2008 RM'000
Less than one year	**16,296**	**2,324**	**13,972**	11,726	1,752	9,974
Between one and five years	**25,906**	**3,695**	**22,211**	22,246	3,477	18,769
	42,202	**6,019**	**36,183**	33,972	5,229	28,743
Company						
Less than one year	**94**	**14**	**80**	–	–	–
Between one and five years	**314**	**47**	**267**	–	–	–
	408	**61**	**347**	–	–	–

16. Loans and borrowings (continued)

16.1 Term loans

At 31 July 2009 and 31 July 2008, the secured term loans of the subsidiaries are charged against the subsidiaries' freehold land, building and structures (Note 3), leasehold land (Note 4) and the Company's investment in a subsidiary. These term loans are subject to interest at rates ranging from 0.60% to 1.70% (2008 - 0.60% to 1.50%) per annum above the lenders' base lending rate and are repayable over 3 to 7 (2008 - 4 to 8) years.

At 31 July 2008, the unsecured term loan of a subsidiary was subject to interest rate of 1.50% per annum above the bank's cost of funds and was repayable within a year.

16.2 Bank overdrafts

The unsecured bank overdrafts of the subsidiaries are subject to interest at rates ranging from 1.5% to 2.0% (2008 - 1.0% to 2.0%) per annum above the lenders' base lending rates.

16.3 Revolving credits

At 31 July 2009, the revolving credits of the Group and of the Company were subject to interest rate of 2.5% per annum above the lenders' cost of fund.

16.4 Bankers' acceptances

The bankers' acceptances of a subsidiary are subject to interest at rate of 1.00% (2008 - 1.00%) per annum above the lenders' reference rate. The bankers' acceptances are secured by assignment of proceeds from certain contracts.

16.5 Hire purchase creditors

Hire purchase creditors of the Group and of the Company are subject to interest at flat rates ranging from 2.30% to 4.30% (2008 - 2.30% to 3.52%) and 3.52% (2008 - Nil) per annum respectively.

17. Deferred tax liabilities

Recognised deferred tax liabilities

Deferred tax liabilities are attributable to the following:

	Group	
	2009 RM'000	**2008 RM'000**
Property, plant and equipment		
– Temporary differences	**12,389**	9,486
– Fair value adjustment in relation to acquisition of subsidiaries	**13,536**	13,669
Unabsorbed capital allowances	**(480)**	(257)
Others	**(598)**	(105)
	24,847	22,793

Unrecognised deferred tax assets

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

	Group	
	2009 RM'000	**2008 RM'000**
Property, plant and equipment	**–**	(348)
Unabsorbed capital allowances	**–**	563
Provisions	**–**	1,215
	–	1,430

The deductible temporary differences do not expire under the current tax legislation. Deferred tax assets were not recognised in respect of these items because it was not probable that future taxable profit will be available against which the Group can utilise the benefits there from.

In 2008, the Group had unabsorbed reinvestment allowance of RM16,603,000 available to set-off future profits.

17. Deferred tax liabilities (continued)

Movement in temporary differences during the year

Group	At 1.8.2007 RM'000	Acquisition of subsidiaries RM'000	Recognised in income statement (Note 21) RM'000	At 31.7.2008 RM'000	Recognised in income statement (Note 21) RM'000	At 31.7.2009 RM'000
Property, plant and equipment						
– Temporary differences	5,741	1,606	2,139	9,486	2,903	**12,389**
– Fair value adjustment in relation to acquisition of subsidiaries	8,866	4,936	(133)	13,669	(133)	**13,536**
Unabsorbed capital allowances	–	(38)	(219)	(257)	(223)	**(480)**
Others	–	–	(105)	(105)	(493)	**(598)**
	14,607	6,504	1,682	22,793	2,054	**24,847**

Movement in unrecognised deferred tax assets during the year

Unrecognised deferred tax assets

Group	At 1.8.2007 RM'000	Acquisition of subsidiaries RM'000	Recognised in income statement (Note 21) RM'000	At 31.7.2008 RM'000	Recognised in income statement (Note 21) RM'000	At 31.7.2009 RM'000
Tax loss carry-forwards	306	–	(306)	–	–	**–**
Property, plant and equipment	–	(70)	–	(70)	70	**–**
Unabsorbed capital allowances	–	113	–	113	(113)	**–**
Provisions	–	243	–	243	(243)	**–**
	306	286	(306)	286	(286)	**–**

18. Payables and accruals

		Group		Company	
	Note	2009 RM'000	2008 RM'000	2009 RM'000	2008 RM'000
Current					
Trade					
Trade payables	a	**122,583**	140,668	**–**	–
Amount due to contract customers (Note 11)		**100,431**	179,297	**–**	–
Contract advances	b	**33,570**	29,510	**–**	–
Amounts due to associates	c	**798**	1,250	**–**	–
Amounts due to jointly controlled entities	c	**–**	10,742	**–**	–
		257,382	361,467	**–**	–
Non-trade					
Other payables		**8,070**	13,830	**327**	76
Accrued expenses		**10,710**	7,870	**510**	129
		18,780	21,700	**837**	205
		276,162	383,167	**837**	205

Note a

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

	Group	
	2009 RM'000	2008 RM'000
US Dollars	**22,653**	47,348
Singapore Dollars	**764**	1,416
Euro	**26**	–
Pounds Sterling (GBP)	**44**	87

Note b

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

Note c

The amounts due to associates and jointly controlled entities of the Group are interest free, unsecured and repayable on demand.

19. Operating profit

	Group		Company	
	2009 RM'000	2008 RM'000	2009 RM'000	2008 RM'000
Operating profit is arrived at after charging:				
Allowance for doubtful debts	**2,640**	960	**–**	–
Auditors' remuneration	**260**	220	**30**	25
Depreciation of property, plant and equipment	**17,205**	12,426	**132**	19
Loss on disposal of property, plant and equipment	**–**	–	**1**	–
Amortisation of prepaid lease payments	**683**	557	**–**	–
Property, plant and equipment written off	**86**	272	**2**	–
Personnel expenses				
– Contributions to Employees Provident Fund	**5,709**	4,800	**280**	150
– Wages, salaries and others	**47,676**	47,525	**2,581**	1,409
Rental of premises	**819**	603	**163**	136
Rental of equipment	**691**	1,151	**15**	9
Rental of vehicles	**118**	2	**114**	–
Rental of staff quarter	**–**	15	**–**	–
Share based payments	**2,642**	965	**218**	360
and after crediting:				
Gross dividend income from subsidiaries - taxable	**–**	–	**10,667**	10,667
Rental income	**672**	715	**–**	–
Gain on disposal of property, plant and equipment	**80**	79	**–**	–
Net realised gain on foreign exchange	**1,349**	154	**–**	–
Net unrealised gain on foreign exchange	**25**	–	**–**	–
Reversal of bad debts written off	**41**	–	**–**	–
Reversal of allowance for doubtful debts	**577**	1,109	**–**	–

20. Key management personnel compensation

	Group		Company	
	2009 RM'000	**2008 RM'000**	**2009 RM'000**	**2008 RM'000**
Directors:				
– Fees	**165**	96	**165**	96
– Contribution to Employees Provident Fund ("EPF")	**431**	403	**60**	59
– Remuneration	**2,638**	2,460	**664**	662
– Other short terms employee benefits	**1,747**	–	**–**	–
	4,981	2,959	**889**	817

The Directors of the Company and its subsidiaries 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.

21. Tax expense

	Group		Company	
	2009 RM'000	**2008 RM'000**	**2009 RM'000**	**2008 RM'000**
Income tax expense				
Malaysia				
– current year	**30,383**	18,176	**2,667**	2,689
– under/(over) provision in prior year	**626**	(204)	**38**	(10)
	31,009	17,972	**2,705**	2,679
Foreign/withholding tax				
– current year	**1,540**	16,401	**–**	–
Deferred tax expense				
Origination of temporary differences	**2,420**	1,724	**–**	–
Over provision in prior years	**(366)**	(42)	**–**	–
	2,054	1,682	**–**	–
Total tax expense	**34,603**	36,055	**2,705**	2,679

21. Tax expense (continued)

	Group		Company	
	2009 RM'000	2008 RM'000	2009 RM'000	2008 RM'000
Reconciliation of tax expense				
Profit before tax	**152,806**	121,125	**8,758**	9,877
Income tax using Malaysian tax rate at 25% (2008 - 26%) *	**38,201**	31,493	**2,190**	2,568
Effect of change in tax rate	**–**	(24)	**–**	–
Non-deductible expenses	**4,478**	2,937	**477**	121
Tax incentives **	**(10,883)**	(12,336)	**–**	–
Utilisation of previously unrecognised deferred tax benefits	**(286)**	(306)	**–**	–
Withholding tax	**1,540**	16,401	**–**	–
Crystallisation of deferred tax liabilities on fair value adjustment in relation to acquisition of subsidiaries	**(133)**	(133)	**–**	–
Others	**1,426**	(1,731)	**–**	–
	34,343	36,301	**2,667**	2,689
Under/(Over) provision in prior years				
– Malaysia tax expense	**626**	(204)	**38**	(10)
– Deferred tax expense	**(366)**	(42)	**–**	–
Tax expense	**34,603**	36,055	**2,705**	2,679

* The corporate tax rate is 25% for the year of assessment 2009 and subsequent years of assessment. Consequently, deferred tax assets and liabilities are measured using this tax rate.

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

22. Dividends

Proposed final dividend for the financial year ended 31 July 2009

Dividends recognised in the current year by the Company are:

2009	Per share (single tier)	Total amount RM'000	Date of payment
First and final 2008 ordinary	**5%**	**4,510**	**10 March 2009**

The Directors recommended a first and final single tier dividend of 5.00% per ordinary share of RM0.10 each totalling RM4,515,000 subject to the approval of the shareholders at the forthcoming Annual General Meeting in respect of the financial year ended 31 July 2009, based on the issued and paid-up share capital of 902,955,500 ordinary shares of RM0.10 each as at 31 July 2009.

23. 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	
	2009 RM'000	2008 RM'000
Profit for the year attributable to ordinary equity holders	**118,203**	85,110
Weighted average number of ordinary shares		
Issued ordinary shares at 1 August	**902,000**	891,500
Effect of ordinary shares issued under ESOS	**154**	5,307
	902,154	896,807
Basic earnings per ordinary share (in sen)	**13.10**	9.49

23. Earnings per ordinary share (continued)

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	
	2009 RM'000	**2008 RM'000**
Profit for the year attributable to ordinary equity holders	**118,203**	85,110
Weighted average number of ordinary shares (diluted)		
Weighted average number of ordinary shares at 31 July	**902,154**	896,807
Effect of share options on issue	**3,885**	4,237
	906,039	901,044

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	
	2009 RM'000	**2008 RM'000**
Diluted earnings per ordinary share (in sen)	**13.05**	9.45

24. Segmental reporting

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

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

25. 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 and the Company's business. The Board reviews and agrees policies for managing each of these risks and they are summarised below:

Credit risk

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

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

Liquidity risk

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

Interest rate risk

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

Effective interest rates and repricing analysis

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

Group 2009	Effective interest rates %	Total RM'000	Less than 1 year RM'000
Financial assets			
Deposits placed with licensed banks	1.60 – 3.40	172,742	172,742
Financial liabilities			
Secured term loans	5.14 – 7.15	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

25. Financial instruments (continued)

Effective interest rates and repricing analysis (continued)

Group 2008	Effective interest rates %	Total RM'000	Less than 1 year RM'000
Financial assets			
Deposits placed with licensed banks	2.40 - 3.10	59,231	59,231
Financial liabilities			
Secured term loans	6.71 - 8.25	51,027	51,027
Unsecured term loans	5.91	66,474	66,474
Bank overdrafts - unsecured	6.96 - 9.00	339	339
Bankers' acceptances - unsecured	3.96	4,298	4,298
		122,138	122,138

Company 2009	Effective interest rates %	Total RM'000	Less than 1 year RM'000
Financial assets			
Deposits placed with licensed banks	**2.50**	**7,438**	**7,438**
Financial liabilities			
Revolving credits - unsecured	**4.75 - 5.25**	**30,000**	**30,000**
2008			
Financial assets			
Deposits placed with licensed banks	2.50	2,015	2,015

25. Financial instruments (continued)

Foreign currency risk

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

The currencies giving rise to this risk are primarily US dollars, AUD dollars, SGD dollars, 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	2009 Carrying amount RM'000	2009 Fair value RM'000	2008 Carrying amount RM'000	2008 Fair value RM'000
Financial assets				
Quoted shares – long term	**20**	**20**	20	20
Unquoted shares	**48**	*****	48	*
Financial liabilities				
Secured term loans	**145,552**	**127,255**	51,027	47,449

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

It is not possible to establish the fair value of the amounts due from subsidiaries and associates as the amounts are interest free, unsecured and repayable on demand.

25. Financial instruments (continued)

Fair values (continued)

Unrecognised financial instruments

Forward exchange contracts

The outstanding forward foreign exchange contracts not recognised in the balance sheets as at 31 July with maturity dates within 1 year are as follows:

	Group			
	2009 Nominal value RM'000	**2009 Fair value RM'000**	**2008 Nominal value RM'000**	**2008 Fair value RM'000**
Forward foreign exchange purchase contracts - USD	**9,428**	162	**–**	–

Any difference arising from the movement in the currency of the above forward foreign exchange contracts would be deferred until the related payments. However, if such payments do not occur, the difference at the maturity of these forward foreign exchange contracts would be recognised in the income statement. All gains and losses are dealt with through the income statement upon realisation. There is minimal credit and market risk because the contracts are entered into with reputable banks.

The valuation of financial instruments not recognised in the balance sheet reflects their current market rates at the balance sheet date.

26. Capital commitments

	Group	
	2009 RM'000	**2008 RM'000**
Property, plant and equipment		
Contracted but not provided for in the financial statements	**45,973**	8,585
Approved but not contracted for	**175,200**	–

27. Contingent liabilities

	Group	
	2009 RM'000	**2008 RM'000**
Guarantees issued by financial institutions in favour of third parties	**1,500**	22,830

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

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

Litigation

(i) Advance Marine Services Sdn. Bhd. vs. UOP LLC & Kencana HL Sdn. Bhd.

Advance Marine Services Sdn. Bhd. ("AMS") filed Summons in the Kuala Lumpur High Court on 15 September 2008 against a subsidiary of the Company, Kencana HL Sdn. Bhd. ("KHL") 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 KHL for work done and services rendered by the claimant and wrongful termination by KHL of the claimant as a sub-contractor for KHL. KHL, through its solicitors, has filed a defence and served the same on the claimant's solicitors. On 21 August 2009, the claimant filed an application for summary judgement against KHL. The Court has fixed 9 December 2009 as the next mention date.

No provision has been made for the amount claimed as the Directors of the Company are of the opinion, on the advice of KHL's solicitors, that AMS is unlikely to succeed in its application from summary judgement against KHL on the basis that there are triable issues of fact raised in relation to AMS's claim.

(ii) Kencana Bestwide Sdn. Bhd. vs. Petra Fabricators Sdn. Bhd. (as Defendant), Dancomech Engineering Sdn. Bhd. (1st third party) and Multi-Purpose Insurans Bhd. (2nd third party)

A subsidiary of the Company, Kencana Bestwide Sdn. Bhd. ("KBW") filed summons in the Kuala Lumpur High Court on 15 October 2003 against one of its customers for the sum of RM1,071,899 plus interest, being outstanding payment due and owing to KBW for work done and services rendered by KBW. The said customer in return, filed a counter-claim for the sum of RM2,122,573 plus interest, for damages allegedly suffered.

Taking into account the course of trial which has been completed to date, KBW's solicitors are of the view that the Defendant has not produced cogent evidence to support its contention that the work done by KBW was counterfeit to justify non-payment to the company. Furthermore, KBW's solicitors are of the view, even if KBW is found liable to the Defendant's counterclaim, KBW has an even chance of succeeding in seeking indemnity and/or contribution from the third parties.

28. 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 Directors.

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

Significant transactions with subsidiaries

Company	**Transaction amount for the year ended 31 July**	
	2009 RM'000	**2008 RM'000**
Gross dividend income receivable	**(10,667)**	(10,667)
Management fees receivable	**(5,400)**	(3,220)
Advances to subsidiaries	**14,146**	26,050

Significant transactions with related parties

Group	**Transaction amount for year ended 31 July**		**Net balance outstanding at 31 July**	
	2009 RM'000	**2008 RM'000**	**2009 RM'000**	**2008 RM'000**
Company in which Dato' Mokhzani bin Mahathir and Yeow Kheng Chew have interest:				
Stamsteel Sdn. Bhd.				
– Progress billings receivable	**2,051**	–	**–**	–
– Contract cost payable	**(632)**	(2,007)	**–**	(416)

28. Related parties (continued)

Group	Transaction amount for the year ended 31 July 2009 RM'000	2008 RM'000
Associates		
Best Wide Engineering (M) Sdn. Bhd.		
– Progress billings receivable	**17,730**	8,116
– Rental income receivable	**12**	12
– Subcontract costs payable	**(9,833)**	(6,125)
Matrix Maintenance Sdn. Bhd.		
– Progress billings receivable	**16**	189
– Subcontract costs payable	**(377)**	(403)
Mermaid Kencana Rig 1 Pte. Ltd.		
– Progress billings receivable	**162,395**	128,968
Jointly controlled-entities		
Best Wide MCCS Sdn. Bhd.		
– Progress billings receivable	**356**	5,943
– Subcontract costs payable	**(4,982)**	(71,649)

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 2008 and 2009 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 11 and Note 18 respectively.

29. Subsequent event

(a) Conversion of Teras Muhibah Sdn. Bhd. ("TMSB") to a subsidiary

Kencana Petroleum Ventures Sdn Bhd ("KPV"), a wholly-owned subsidiary of the Company, had on 6 August 2009 entered into a Supplemental Agreement to subscribe for 162,000 new ordinary shares of RM1.00 each in TMSB. With the subscription, KPV's equity stake in TMSB increased from 27% to 67%, resulting in TMSB to become a subsidiary of the Company.

KPV also subscribed for 5,146,000 redeemable preference shares of RM1.00 each in TMSB on 6 August 2009.

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 64 to 115 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 2009 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 2009

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 64 to 115 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 2009.

Yeow Kheng Chew

Before me:

Report on the Financial Statements

We have audited the financial statements of Kencana Petroleum Berhad, which comprise the balance sheets as at 31 July 2009 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 64 to 115.

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 judgement, 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 2009 and of their financial performance and cash flows for the year then ended.

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

Foong Mun Kong
Approval Number: 2613/12/10(J)
Chartered Accountant

Petaling Jaya,

Date: 28 October 2009

Authorised Share Capital	:	RM200,000,000.00
Issued and fully paid-up	:	RM90,479,200.00
Class of Shares	:	Ordinary Shares of RM0.10 each
No. of Shareholders	:	9,956
Voting Rights	:	One vote per Ordinary Share held

Distribution schedule of shares

Size of Holdings	No. of Holders	%	No. of Shares	%
Less than 100	22	0.22	976	0.00
100 – 1,000	2,344	23.54	2,219,972	0.25
1,001 – 10,000	6,067	60.95	26,883,437	2.97
10,001 – 100,000	1,190	11.95	35,618,255	3.93
100,001 to less than 5% of issued shares	328	3.29	423,348,507	46.79
5% and above of issued shares	5	0.05	416,720,853	46.06
Total	**9,956**	**100.00**	**904,792,000**	**100.00**

Thirty largest shareholders

	Name of Shareholders	No. of Shares	% of Shares
1.	Khasera Baru Sdn Bhd	200,000,000	22.10
2.	Mayban Nominees (Tempatan) Sdn Bhd *Kuwait Finance House (Malaysia) Berhad for Khasera Baru Sdn Bhd (Glossy H Ltd)*	65,670,000	7.26
3.	Chong Hin Loon	53,300,000	5.89
4.	Khasera Baru Sdn Bhd	49,764,253	5.50
5.	Employees Provident Fund Board	47,986,600	5.30
6.	Chong Hin Loon	43,000,000	4.75
7.	AMMB Nominees (Tempatan) Sdn Bhd *Ambank (M) Berhad for Khasera Baru Sdn Bhd*	26,700,000	2.95
8.	Kumpulan Wang Persaraan (Diperbadankan)	14,741,300	1.63
9.	AmSec Nominees (Tempatan) Sdn Bhd *AmTrustee Berhad for CIMB Islamic Dali Equity Fund (UT-CIMB-DALI)*	14,581,500	1.61
10.	Asset Nominees (Tempatan) Sdn Bhd *HL Management Co Sdn Bhd*	13,973,200	1.54
11.	Best Wide Holdings Sdn Bhd	12,576,000	1.39
12.	HSBC Nominees (Asing) Sdn Bhd *Exempt an for Credit Suisse (SG BR-TST-Asing)*	10,322,100	1.44
13.	HLB Nominees (Tempatan) Sdn Bhd *Pledged Securities Account for Khasera Baru Sdn Bhd (Sin 90927-4)*	9,950,000	1.10

Thirty largest shareholders (continued)

	Name of Shareholders	No. of Shares	% of Shares
14.	Citigroup Nominees (Asing) Sdn Bhd *UBS AG Singapore for Ivory-Bill Group Limited*	9,763,700	1.08
15.	HSBC Nominees (Tempatan) Sdn Bhd *Nomura Asset MGMT Malaysia for Employees Provident Fund*	7,500,000	0.83
16.	SBB Nominees (Tempatan) Sdn Bhd *Kumpulan Wang Persaraan (Diperbadankan)*	7,009,400	0.77
17.	Cher Lee Kiat	6,802,900	0.75
18.	Yeow Kheng Chew	6,750,000	0.75
19.	CIMB Group Nominees (Tempatan) Sdn Bhd *AmTrustee Berhad for CIMB Islamic Dali Equity Theme Fund*	5,708,200	0.63
20.	Malaysia Nominees (Tempatan) Sendirian Berhad *Great Eastern Life Insurance (Malaysia) Berhad (LGF)*	5,536,100	0.61
21.	Richard Mah Foo Kheong	5,250,000	0.58
22.	HSBC Nominees (Asing) Sdn Bhd *HSBC BK PLC for Framlington Emerging Markets (RBS as Trustee)*	5,237,000	0.58
23.	Malaysia Nominees (Tempatan) Sendirian Berhad *Great Eastern Life Assurance (Malaysia) Berhad (DR)*	5,103,400	0.56
24.	AllianceGroup Nominees (Tempatan) Sdn Bhd *Alliance Investment Management Berhad for Employees Provident Fund*	5,025,200	0.56
25.	Affendi bin Zahari (*Shares held in trust for the benefit of Khasera Baru Sdn. Bhd. pursuant to Trust Deed dated 1 September 2005)*	4,915,324	0.54
26.	Citigroup Nominees (Tempatan) Sdn Bhd *UBS AG Singapore for Asia Premium Corp*	4,536,300	0.50
27.	Dato' Mokhzani bin Mahathir	4,150,000	0.46
28.	Valuecap Sdn Bhd	4,058,100	0.45
29.	Tan Siew Lee	4,040,900	0.45
30.	RHB Nominees (Tempatan) Sdn Bhd *RHB Investment Management Sdn Bhd for Kumpulan Wang Simpanan Pekerja*	4,000,000	0.44

Substantial shareholders (as per Register of Substantial Shareholders)

	Direct Interest		Deemed Interest	
Name of Shareholders	No. of Shares	%	No. of Shares	%
Khasera Baru Sdn. Bhd.	360,339,497[a]	39.83	0	0
Dato' Mokhzani Bin Mahathir	4,150,000	0.46	360,339,497[b]	39.83
Chong Hin Loon	96,300,000	10.64	0	0
Employees Provident Fund Board	65,085,600	7.19	0	0

Notes:-

[a] 4,915,324 shares are held by Affendi Bin Zahari in trust for the benefit of Khasera Baru Sdn. Bhd. ("Khasera Baru") pursuant to the trust deed dated 1 September 2005 upon terms and condition therein. The shares are pending allocation to key management of the Kencana Petroleum Group.

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

Directors' Shareholdings (as per Register of Directors' Shareholdings)

	Direct Interest		Deemed Interest	
Name of Shareholders	No. of Shares	%	No. of Shares	%
Tan Sri Nik Mohamed Bin Nik Yaacob	0	0	0	0
Dato' Mokhzani Bin Mahathir	4,150,000	0.46	360,339,497*	39.83
Chong Hin Loon	96,300,000	10.64	0	0
Yeow Kheng Chew	7,250,000	0.80	0	0
Ir Cher Lee Kiat	6,802,900	0.75	17,042,300^	1.88
Azmi Bin Ismail	250,000	0.03	0	0
Syed Zaid Bin Syed Jaafar Albar	0	0	0	0
Mohd Adzahar Bin Abdul Wahid	0	0	0	0

Notes:-

* Deemed interested by virtue of his shareholding in Khasera Baru pursuant to Section 6A of the Act.

^ 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

Location	Tenure/ Expiry Date	Area (sq ft)	Description/ Existing use	Net Book Value (RM'000)	Age of Building (Years)	Year of Acquisition
Plot D-1, Lumut Port Industrial Park, Kampung Acheh, Mukim of Lumut, Daerah Manjung, 32000 Sitiawan, Perak Darul Ridzuan, Malaysia	Leasehold/ 21 December 2094	470,884	Fabrication Yard	3,415	8	1999
Plot D-8, Lumut Port Industrial Park, Kampung Acheh, Mukim of Lumut, Daerah Manjung, 32000 Sitiawan, Perak Darul Ridzuan, Malaysia	Leasehold/ 21 December 2094	394,654	Fabrication Yard/ Office Building/ Paint Shop	4,540	Not Applicable	2002
Plot D-11, Lumut Port Industrial Park, Kampung Acheh, Mukim of Lumut, Daerah Manjung, 32000 Sitiawan, Perak Darul Ridzuan, Malaysia	Leasehold/ 18 December 2093	398,574	Fabrication Yard/ Workshop	40,615	Not Applicable	2004
Plot D-9, Lumut Port Industrial Park, Kampung Acheh, Mukim of Lumut, Daerah Manjung, 32000 Sitiawan, Perak Darul Ridzuan, Malaysia	Leasehold/ 21 December 2094	490,050	Fabrication Yard/ 3 storey office	5,737	Not Applicable	2004
Plot D-7, Lumut Port Industrial Park, Kampung Acheh, Mukim of Lumut, Daerah Manjung, 32000 Sitiawan, Perak Darul Ridzuan, Malaysia	Leasehold/ 21 December 2094	237,123	Fabrication Yard/ Road Reserve Land/Canteen & HSE office	3,570	Not Applicable	2005
Plot D-12, Lumut Port Industrial Park, Kampung Acheh, Mukim of Lumut, Daerah Manjung, 32000 Sitiawan, Perak Darul Ridzuan, Malaysia	Leasehold/ 21 December 2094	336,299	Fabrication Yard/ Road Reserve Land	2,170	Not Applicable	2005
Lot 50, Jalan BRP 8/2, Persiaran Bukit Rahman 3, Perusahaan Bukit Rahman Putra, 47000 Sungai Buloh, Selangor Darul Ehsan, Malaysia	Freehold	26,572	Industrial Building	2,289	10	2005
Plot H-1, Lumut Port Industrial Park, Kampung Acheh, Mukim of Lumut, Daerah Manjung, 32000 Sitiawan, Perak Darul Ridzuan, Malaysia	Leasehold 09 July 2105	298,031	Fabrication Yard/ Workshop	2,408	Not Applicable	2008
Plot H-2, Lumut Port Industrial Park, Kampung Acheh, Mukim of Lumut, Daerah Manjung, 32000 Sitiawan, Perak Darul Ridzuan, Malaysia	Leasehold 09 July 2105	425,587	Fabrication Yard/ Workshop	3,350	Not Applicable	2008

Location	Tenure/ Expiry Date	Area (sq ft)	Description/ Existing use	Net Book Value (RM'000)	Age of Building (Years)	Year of Acquisition
PT No. 595, H.S. (D) Dgs 1276/88 & PT No. 538, H.S. (D) Dgs 1272/88, Lumut Port Industrial Park, Kg Acheh, Mukim of Lumut, Daerah Manjung 32000 Sitiawan, Perak Darul Ridzuan Malaysia	Leasehold 28 September 2087	108,498	Fabrication Yard/ Workshop & Office Building	3,717	14	1993 - 2006
Lot I1, Lumut Port Industrial Park, Kampung Acheh, Mukim of Lumut, Daerah Manjung, 32000 Sitiawan, Perak Darul Ridzuan, Malaysia	Leasehold 21 December 2094	269,612	Fabrication Yard & Workshop	7,642	1 - 13	1995 - 2009
Lot H4, Lumut Port Industrial Park, Kampung Acheh, Mukim of Lumut, Daerah Manjung, 32000 Sitiawan, Perak Darul Ridzuan, Malaysia	Leasehold (Exp 2094)	961,282	Fabrication Yard/ Workshop & Office Building	21,560	2	2006 - 2008
Lot D-2, Lumut Port Industrial Park, Kampung Acheh, Mukim of Lumut, Daerah Manjung, 32000 Sitiawan, Perak Darul Ridzuan, Malaysia	Leasehold (Exp 2093)	546,193	Industrial Land & Building	10,070	9	1996 - 2001
Lot D13, Lumut Port Industrial Park Kampung Acheh, Mukim of Lumut, Daerah Manjung, 32000 Sitiawan, Perak Darul Ridzuan, Malaysia	Leasehold (Exp 2093)	82,728	Access road	328	NA	2007
Unit B-11-8, Megan Avenue II, No. 12 Jalan Yap Kwan Seng, 50450 Kuala Lumpur, Malaysia	Freehold	2,771	Office Lot/ Administrative Office	646	10	2001
Unit B-11-10, Megan Avenue II, No. 12 Jalan Yap Kwan Seng, 50450 Kuala Lumpur, Malaysia	Freehold	2,682	Office Lot/ Administrative Office	625	10	2001
Unit B-11-11, Megan Avenue II, No. 12 Jalan Yap Kwan Seng, 50450 Kuala Lumpur, Malaysia	Freehold	4,629	Office Lot/ Administrative Office	1,128	10	2001
K 9595, Taman Chukai Utama, Jalan Kubang Kurus, 24000 Kemaman, Terengganu Darul Iman, Malaysia	Leasehold/ 18 April 2087	2,664	2-storey corner shop/office	276	21	2002
Unit B-10-9, Megan Avenue II, No. 12 Jalan Yap Kwan Seng, 50450 Kuala Lumpur, Malaysia	Freehold	2,530	Office Lot/ Administrative Office	731	10	2005

corporate directory

Corporate office

KENCANA PETROLEUM BERHAD

50-2-2, Level 2, Wisma UOA Damansara
50, Jalan Dungun, Damansara Heights
50490 Kuala Lumpur, Malaysia
Tel : (6)03-2093 2280
Fax : (6)03-2092 1180

Operations office

FABRICATION

Kencana HL Sdn. Bhd.
Kencana Marine Sdn. Bhd.
Kencana Metering Sdn. Bhd.
Kencana Infrastructure Sdn. Bhd.

Lot 50, Jalan BRP 8/2
Persiaran Bukit Rahman Putra 3
Perusahaan Bukit Rahman Putra
47000 Sungai Buloh
Selangor Darul Ehsan, Malaysia
Tel : (6)03-6140 5801
Fax : (6)03-6140 5810

Kencana HL Sdn. Bhd.
(Lumut Fabrication Yard)

Plot D1, Lumut Port Industrial Park
Kampung Acheh, Mukim of Lumut
Daerah Manjung
32000 Sitiawan
Perak Darul Ridzuan, Malaysia
Tel : (6)05-692 3071
Fax : (6)05-692 2609

Kencana Torsco Sdn. Bhd.
(formerly known as Torsco Sdn. Bhd.)

Lot 538 & 595 Lumut Port Industrial Park
Kampong Acheh
Mukim of Lumut, 32000 Setiawan
Perak Darul Ridzuan, Malaysia
Tel : (6)05-692 1034
Fax : (6)05-692 9880

ENGINEERING/SERVICES

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

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

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

OPERATION SERVICES

Kencana Petroleum Ventures Sdn. Bhd.
Kencana Mermaid Drilling Sdn. Bhd.
Teras Muhibah Sdn. Bhd.

50-2-2, Level 2, Wisma UOA Damansara
50, Jalan Dungun, Damansara Heights
50490 Kuala Lumpur, Malaysia
Tel : (6)03-2093 2280
Fax : (6)03-2092 1180

Kencana Petroleum
(667490-M)

form of proxy

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

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

being a member/members of **KENCANA PETROLEUM BERHAD**, hereby appoint ________________________
(FULL NAME IN BLOCK LETTERS)
(NRIC No. ______________) of ____

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

or failing him, the Chairman of the Meeting as my/our proxy/proxies to attend and vote for me/us and on my/our behalf at the Fifth 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 Thursday, 10 December 2009 at 11.00 a.m. and at any adjournment thereof, in the manner indicated below:-

	Resolutions	For	Against
1.	To receive the Audited Financial Statements for the financial year ended 31 July 2009 together with the Reports of the Directors and Auditors thereon.		
2.	To re-elect Dato' Mokhzani Bin Mahathir as Director.		
3.	To re-elect Chong Hin Loon as Director.		
4.	To re-elect Mohd Adzahar Bin Abdul Wahid as Director.		
5.	To approve the payment of Directors' fees amounting to RM165,000.00 in respect of the financial year ended 31 July 2009.		
6.	To approve the payment of first and final single-tier dividend of 5% per ordinary shares of RM0.10 each for the financial year ended 31 July 2009.		
7.	To re-appoint Messrs. KPMG as Auditors of the Company and to authorise the Directors to fix their remuneration.		
8.	To give authority to allot shares pursuant to Section 132D of the Companies Act, 1965.		

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.*

FOLD HERE

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

Kencana Petroleum Berhad (667490-M)
50-2-2, Level 2, Wisma UOA Damansara, 50, Jalan Dungun, Damansara Heights
50490 Kuala Lumpur, Malaysia

www.kencanapetroleum.com.my

Tel: (6)03 2093 2280 Fax: (6)03 2092 1180