KENCANA PETROLEUM

# DISCOVER
## KENCANA PETROLEUM

annual report 2011

# DISCOVER

## A STRONGER, MORE DYNAMIC KENCANA PETROLEUM

The **KENCANA PETROLEUM GROUP** continues to gain strong momentum as we move up the oil and gas value chain and reinforce our position as the preferred integrated solutions and services provider to upstream oil and gas players. As we advance, we leverage on the talents of our highly skilled workforce as well as tapping the strengths of the Group's companies under a common brand identity.

Going forward, we are all set to capitalise on our robust integrated offering, innovative technologies and proven expertise to reinforce our position of strength.

## DISCOVER OUR Strong Integrated Offering

## DISCOVER OUR Synergystic Advantages

KENCANA PETROLEUM

# Vision

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

## DISCOVER OUR Commitment to Innovation

## DISCOVER OUR Robust Workforce


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# Contents

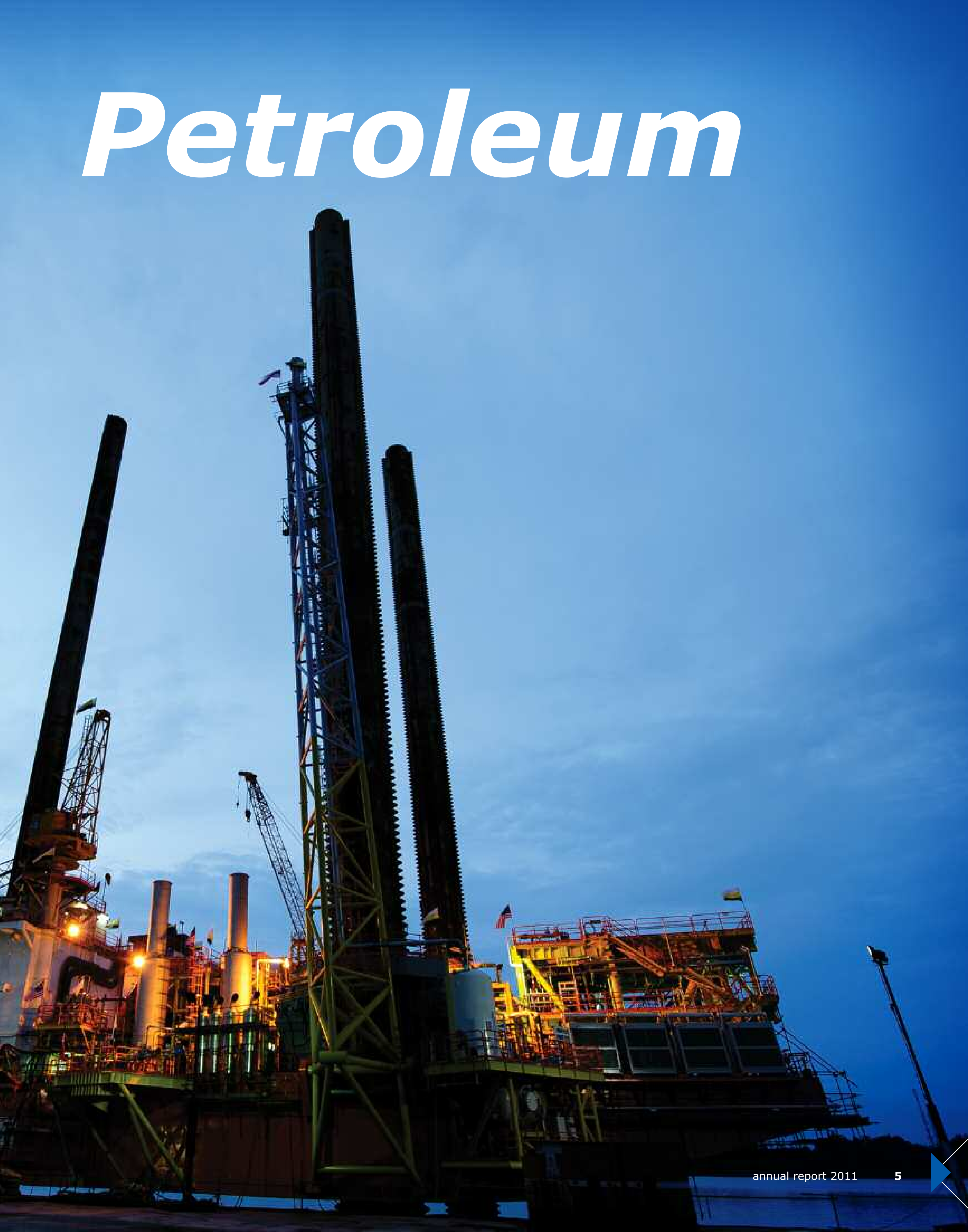
# *about* **Kencana**

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

Today, the Kencana Petroleum Group possesses an enlarged integrated services offering that encompasses our core business of providing engineering and fabrication services as well as hook-up and commissioning, onshore construction, offshore marine and drilling services. Through our core capabilities, expertise and assets, we have been expanding our business proposition and recently added an offshore diving services capability to our portfolio as well as ventured into oil and gas field development and production work.

With a steely commitment to be the best, strengthened capabilities and expertise, a workforce of 5,000 employees and an international footprint covering the Asia Pacific, India and Africa, the Kencana Petroleum Group continues to drive strong performance and deliver exceptional value.

# Petroleum



# Corporate Milestones

**1982**
- Incorporation of Hin Loon Engineering (M) Sdn Bhd (now known as Kencana HL Sdn Bhd), a resident contractor for major fabrication yards in Malaysia.

**1995**
- Incorporation of Best Wide Matrix Sdn Bhd (now known as Kencana Bestwide Sdn Bhd), an EPCC, Design, Engineering and Project Management company.

**2000**
- Establishment of the Lumut Fabrication Yard, covering an area of approximately 11 acres with a 5,000 metric tonnes (mt) load-out jetty.

**2005**
- Expansion and upgrading of the Lumut Fabrication Yard to an area of approximately 53 acres, with new 12,000 mt load out jetty, covered workshops, covered fabrication areas and other facilities.
- Launched the Kencana Petroleum brand.
- Secured our first overseas major contract to fabricate, precommissioning and load-out of an offshore production platform for installation offshore Australia.
- Undertook the conversion/ refurbishment of the first Mobile Offshore Production Unit (MOPU) in Malaysia.

**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 mt, plus seven covered workshops that allow 24-hour fabrication activities in all weather conditions.

**2008**
- Kencana Petroleum completed the world's tallest self-elevating, re-locatable wellhead platform (150m) project.

1982 ........... 2004 ...... 2005 ..... 2006 ..... 2007 ..... 2008 ..............

**2002**
- Awarded a major fabrication (Offshore Structures) license by PETRONAS. Kencana Petroleum is one of only seven licensees in Malaysia.
- Awarded the Group's first topside and jacket project.

**2003**
- Kencana HL received ISO 9001:2000 accreditation from Lloyd's Register Quality Assurance, Kuala Lumpur.

**2004**
- Kencana Bestwide received ISO 9001:2000 accreditation, awarded by Moody International Certification (Malaysia) Sdn Bhd.
- Completed a project involving wellhead platforms, gas compression modules and carbon dioxide ($CO^{2}$) removal skids.

**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 an integrated services and solutions provider.
- Listed on the Main Market of Bursa Malaysia Securities Berhad.

- Incorporated Kencana Petroleum Ventures Sdn Bhd and Kencana Marine Drilling Sdn Bhd (formerly known as Kencana Mermaid Drilling Sdn Bhd), signaling the Group's intention to move into higher value added oil and gas services.
- Enhanced the Group's specialised steel fabrication and infrastructure capabilities and gained a higher yard capacity (48,000 mt 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 first tender assisted drilling rig.
- Secured a contract to build 19 topside modules for floating drilling production storage and offloading (FDPSO).

### 2009

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

2009 2010

### 2010

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

# 2011

- Kencana Energy Sdn Bhd was incorporated as a field developer and operator for the oil and gas industry.
- Awarded risk service contract together with Petrofac Energy Developments Sdn Bhd and Sapura Energy Ventures Sdn Bhd for the development of Malaysia's first marginal oil field.
- Allied Marine & Equipment Sdn Bhd became a part of Kencana Petroleum, offering a wide range of subsea services for the oil and gas industry.
- Completed a Mobile Offshore Production Unit (MOPU) for the Sepat Oil Field.
- The boards of Kencana Petroleum and SapuraCrest Petroleum Berhad have agreed to the merger to become one of the world's largest oil and gas service providers in terms of market capitalisation and assets.

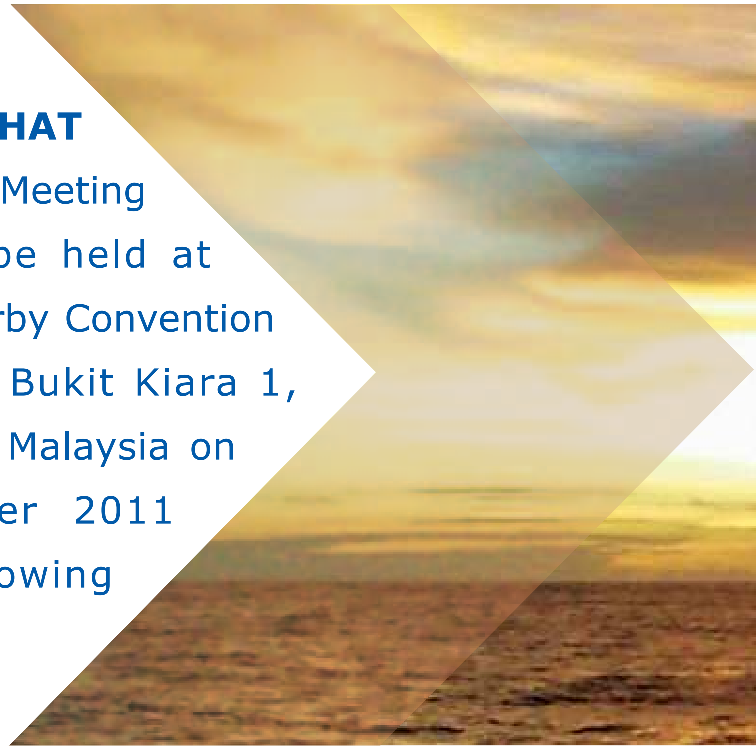

DISCOVER OUR
# Strong Integrated Offering

We offer our markets a strong integrated solutions and services offering. To complement our core engineering and fabrication competency, we have strengthened our offshore and onshore services as well as marine engineering capabilities. Together with our increased focus on the hook-up & commissioning segment, the development and operation of oil and gas fields as well as higher value-add activities, we offer one of the local industry's most compelling solutions.


# DISCOVER OUR Synergystic Advantages

We continue to pool our resources and strengthen our business focus to stay ahead of the competition. Our procurement and tender activities have been consolidated for better cost efficiencies, while our subsidiaries' diverse expertise has been pooled to allow for greater inroads into high-value projects. Moreover our key operations and businesses are today under one roof and a singular brand identity. All of this has resulted in a more streamlined and dynamic Kencana Petroleum.

# *Notice of Annual General Meeting*



**NOTICE IS HEREBY GIVEN THAT** the Seventh 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, 15 December 2011 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 2011 together with the Reports of the Directors and Auditors thereon.
   **Please refer to Note (a)**

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

   (i) Tan Sri Nik Mohamed bin Nik Yaacob **Resolution 1**
   (ii) Dato' Mokhzani bin Mahathir **Resolution 2**
   (iii) Syed Zaid bin Syed Jaffar Albar **Resolution 3**

3. To approve the payment of Directors' fees amounting to RM230,000 for the financial year ended 31 July 2011.
   **Resolution 4**

4. To re-appoint Messrs. KPMG as Auditors of the Company for the ensuing financial year, and to authorise the Directors to fix their remuneration.
   **Resolution 5**

## AS SPECIAL BUSINESS:

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

5. Authority to Issue and Allot Shares Pursuant to Section 132D of the Companies Act, 1965

**Resolution 6**

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

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

By Order of the Board

**NG HENG HOOI (MAICSA 7048492)**
**WONG MEE KIAT (MAICSA 7058813)**
Company Secretaries

Kuala Lumpur
22 November 2011

NOTES:

(a) The Audited Financial Statements in Agenda 1 is meant for discussion only as the approval of shareholders is not required pursuant to the provision of Section 169(1) of the Companies Act, 1965. Hence, this Agenda is not put forward for voting by shareholders of the Company.

(b) 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.

(c) 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, 1991, 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.

(d) 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.

(e) 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 NOTES

1. Resolution 6 - Authority to Issue and Allot Shares Pursuant to Section 132D of the Companies Act, 1965

   The Proposed Resolution 6, if approved, will give the Directors of the Company, from the date of the above Annual General Meeting (“AGM”), authority to issue and allot shares from the unissued capital of the Company for such purposes as the Directors may deem fit and in the interest of the Company. The authority, unless revoked or varied by the Company in general meeting, will expire at the conclusion of the next AGM of the Company.

   The Company is seeking the approval from shareholders on the renewal of the above mandate for the purpose of possible fund raising exercise including but not limited to further placement of shares for purpose of funding future investment project(s), working capital and/or acquisitions. Pursuant to the mandate granted at the last AGM held on 14 December 2010, the Company had on 2 February 2011 issued 166,698,000 ordinary shares of RM0.10 each at an issue price of RM2.38 per share. Please refer to page 67 of the Annual Report for details and status of the utilisation of proceeds raised from the issuance of shares.


KENCANA
PETROLEUM
KENCANA
PETROLEUM
EAST ENTRANCE

# Financial Performance

+37.0%

***Revenue***
**RM1,493 million**
2010: RM1,090 million

+74.9%

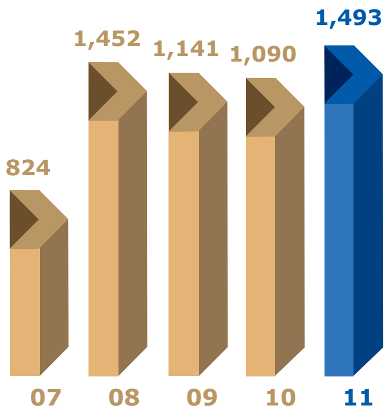
***EBITDA***
**RM362 million**
2010: RM207 million

+54.2%

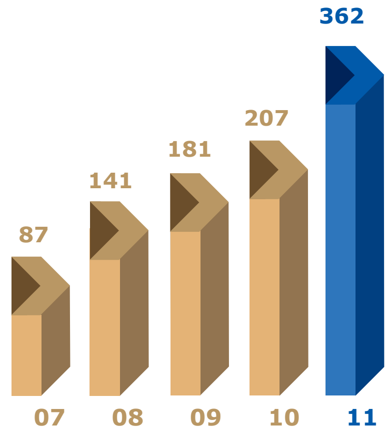
***Gross Profit***
**RM370 million**
2010: RM240 million

+58.7%

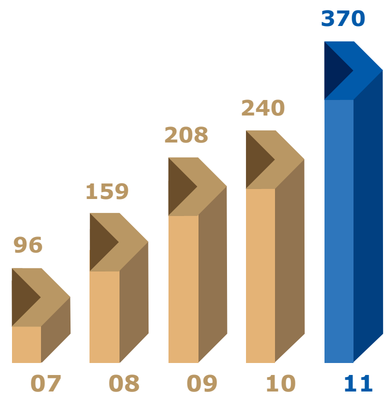
***Profit Before Tax***
**RM273 million**
2010: RM172 million



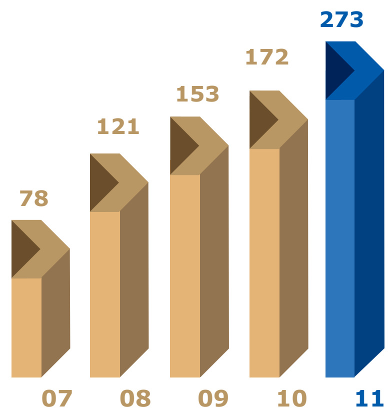

**REVENUE**
RM' Million




**EBITDA**
RM' Million




**GROSS PROFIT**
RM' Million




**PROFIT BEFORE TAX**
RM' Million

+64.0%

*Profit After Tax*
**RM223 million**
2010: RM136 million

12.7%

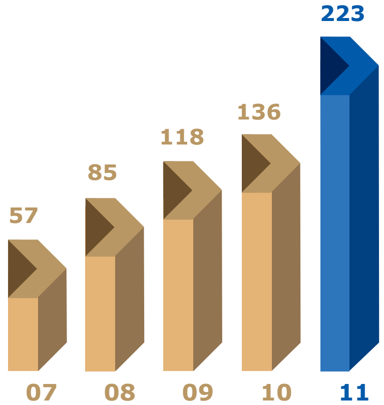
*Return on Equity*
2010: 18.1%

+84.7%

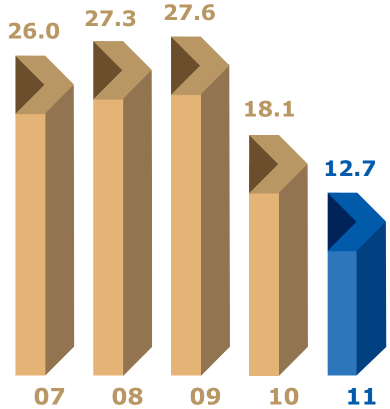
*Net Tangible Assets*
**RM1,323 million**
2010: RM716 million

0.5x

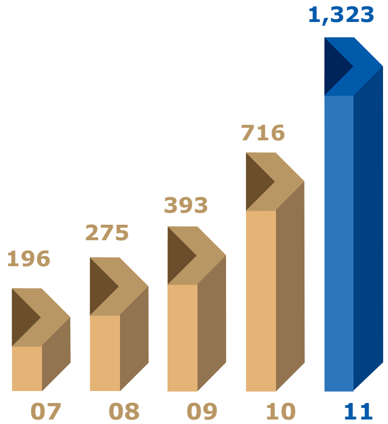
*Gearing Ratio*
2010: 0.3x



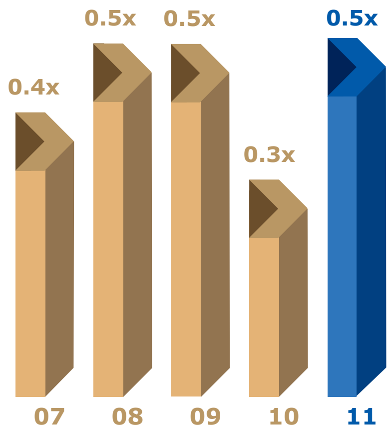

**PROFIT AFTER TAX**
RM' Million




**RETURN ON EQUITY**
%




**NET TANGIBLE ASSETS**
RM' Million




**GEARING RATIO**
Times

# DISCOVER OUR Commitment to Innovation

One of our key strengths is our ability to meet current market demands and stay ahead of the technology curve. We do this by working closely with the oil and gas industry players to understand industry requirements. With our KM-1 tender assisted drilling rig, we are today the only Malaysian group that has built its own drilling asset with offshore drilling capability. Our commitment to investing in innovative technology and people will ensure our future.

# DISCOVER OUR **Robust Workforce**

At the helm of the Group is a proactive leadership team with a strong blend of management and entrepreneurial skills as well as diverse expertise and experience. They lead the Group's dedicated and highly-skilled employees who continuously keep abreast of the latest development in the oil and gas industry. Together, our people possess a collective wealth of experience and expertise that makes us a force to be reckoned with.

# *Chairman's Statement*

**TAN SRI NIK MOHAMED BIN NIK YAACOB**
Chairman

Dear Shareholders,

In our previous Annual Report, we reported that we had undertaken a strategy of putting in place the building blocks for future growth despite a difficult operating environment that year. We are pleased to report that for the financial year ended 31 July 2011 (FY2011), that strategy contributed significantly to FY2011's strong results. In FY2011, Kencana Petroleum Berhad further built upon the good foundations laid to become a stronger and more dynamic group. Amidst a highly competitive environment, we leveraged on several significant developments that included further integration of the companies within the Group and processes, strategic acquisitions, business expansion and people development to deliver strong results. As we stride forward, the Group will continue to maintain the good momentum achieved to reinforce our position as the preferred integrated service provider for upstream oil and gas players.

On behalf of your Board of Directors, I am delighted to present the fifth Annual Report and Audited Financial Statements of Kencana Petroleum Berhad for FY2011.

## PERFORMANCE OVERVIEW

I am pleased to report FY2011 was a record breaking year for the Group. We surpassed the preceding year's profit after tax by 64%, turning in PAT of RM223 million in FY2011 as compared to PAT of RM136 million in FY2010. We also registered an impressive 37% increase in revenue, generating RM1.49 billion in revenue in FY2011 against the preceding year's RM1.09 billion. The higher performance was attributable to the good progress made in relation to contracts in hand on the back of a larger order book, better operational efficiencies and maiden contributions from KM-1's offshore drilling operations. There was also an initial contribution from subsea services following our acquisition of Allied Marine & Equipment Sdn Bhd (AME) in July 2011.

FY2011 saw more robust activities in the upstream oil and gas sector. This was in tandem with the positive global economic environment which supported strong demand for hydrocarbons. Amidst this positive environment, oil prices strengthened. This in turn led to more projects being undertaken by oil and gas companies. This augured well for us as we registered strong new orders for fabrication of offshore facilities as well as offshore hook-up and commissioning (HUC) services.

We recorded a major milestone when we secured our first fabrication contract for a central processing platform for Newfield Malaysia. On top of this, we extended our footprint into Australia by undertaking fabrication works for the Gorgon LNG plant for Saipem France. We also commenced our offshore drilling business with the start of the KM-1 drilling service contract for PETRONAS Carigali Sdn Bhd in September 2010.

At the end of FY2011, the Group's basic earnings per share had increased to 12.71 as compared to 10.72 previously, while the Group's market

**+64.0%**

**RM223 million**

***Profit after Tax***

2010: RM136 million

Today, our workforce interacts and operates very efficiently as one team, while our different business segments are leveraging on a common pool of experience and expertise to stay ahead of the competition.

capitalisation totalled more than RM5.86 billion (FY2010: RM3.15 billion). As at 31 July 2011, cash reserves remained healthy with the Group maintaining a low gearing of 0.5 times. We also increased our share capital during the year following the placement of approximately 10% of the Company's shares. Overall, the increase in revenue from operations together with increased cash reserves and shareholder funds mean that we are now in a better position to grow as a result of a stronger balance sheet and cash reserves.

On 18 February 2011, Kencana Petroleum paid out a first and final single tier dividend of 5% per ordinary share of 10 sen each amounting to RM8.33 million in respect of the financial year ended 31 July 2010. For the financial year ended 31 July 2011, the Board does not recommend any dividend pursuant to the terms of the proposed merger offer between the Company and SapuraCrest Petroleum Berhad (SapuraCrest Petroleum). The offer was accepted by the Board on 5 August 2011 and shall be subject to approval by our shareholders and other relevant parties.

## KEY DEVELOPMENTS

In FY2011, we built upon existing activities and undertook new developments to strengthen the Group's integrated services offering and make further advances up the oil and gas services value chain.

### Consolidation Continues to Bear Fruit

As of September 2010, all the subsidiaries within the Group were housed under one roof at the Group's headquarters at Menara Kencana Petroleum in Solaris Dutamas, Kuala Lumpur. Today, our workforce interacts and operates very efficiently as one team, while our different business segments are leveraging on a common pool of experience and expertise to stay ahead of the competition. The rollout of a centralised tender, procurement and engineering system for the whole Group too has led to greater cost efficiencies.

### Acquisitions Strengthen Group's Integrated Capability

A significant highlight in FY2011 was the completion of the acquisition of AME for RM400 million. This marked an important step towards helping us establish a strong foothold in the subsea services segment. It has also widened our service offerings and strengthened our position as an integrated services provider for upstream oil and gas offshore

services. We also acquired equity interest in King Hang Engineering Company Limited in Hong Kong. King Hang, which has a fabrication yard in Guangdong, China, will allow us to gain access to the resources we need to support future expansion into the fabrication business in this region.

**Business Expansion Bodes Well for Long-Term Growth**

Another major milestone was achieved in January 2011 when we entered into a risk service contract (RSC) with PETRONAS to develop and operate the Berantai Field located offshore Terengganu together with our partners Petrofac Energy Developments Sdn Bhd and Sapura Energy Ventures Sdn Bhd. This marks a major step-up in our capability building efforts as we ascend higher up the value chain to be part of a team that designs, develops and operates an oil and gas field. This expansion also bodes well for our long-term growth as we build long-term contracts in a niche area at a different level from the typical service contractors' value chain. At the same time we will continue to utilise our core engineering and fabrication expertise as well as offshore HUC capabilities to execute field development activities.

**New Contracts Underscore International Focus**

As our capabilities and track record gain recognition, the Group continues to pursue new opportunities abroad to generate revenue. As a result of aggressive efforts to expand our international footprint, we secured several new overseas contracts in FY2011. Closer to home, we secured a new contract in Brunei for Shell Brunei and continued to explore opportunities within ASEAN.
We also secured a contract in Australia to fabricate components for the Gorgon LNG plant and we envisage that fabrication support activities for both offshore and onshore facilities will continue to be our mainstay in this market.
A contract secured for works in Garaf, Iraq heralded our entry into the oil and gas markets in the Middle East. India continues to be an important market for us given that there are limited fabrication facilities in that country to support the expected rise in oil and gas and infrastructural activities.

Going forward, we will continue to strengthen our presence in the many international markets we have entered.

**Impending Merger to Deliver Strong Value**

Please allow me to explain how the proposed merger between Kencana Petroleum and SapuraCrest Petroleum will deliver value to shareholders. Through combining the diverse strengths, capabilities and expertise of Kencana Petroleum and SapuraCrest Petroleum, we aim to create Malaysia's most complete oil and gas services provider and cover the entire scope of oil and gas services. SapuraCrest Petroleum is already our partner in the Berantai RSC Project. They are predominantly a transportation and installation contractor, just as Kencana Petroleum is predominantly a major fabricator. Both groups actually have many other strengths, capabilities and expertise that cover the entire scope of oil and gas services.

The merged entity will stand on a larger platform created through the combination of the companies, capabilities, financial strength and human capital of Kencana Petroleum and SapuraCrest Petroleum. It will become a full-fledged oil and gas services provider with strong delivery and execution capabilities across the upstream oil and gas services value chain. This will not only give us an unparalleled position in the Malaysian market, it will also make us a very competitive group in the international market.

## ORDER BOOK HIGHLIGHTS

At the time of writing, the Group has an order book balance amounting to some RM2.2 billion. While some of these contracts will contribute positively to our earnings in FY2012, we continue to actively tender for new jobs in Malaysia and abroad. Going forward, we believe that the operating environment will remain conducive and that oil and gas activities will still be robust. This gives us the confidence to secure enough work to maintain an order book of not less than RM2 billion at any given time.

## CORPORATE GOVERNANCE AND RISK MANAGEMENT

The Board and management of Kencana Petroleum are deeply committed to strengthening corporate governance and risk management practices across all levels of our organisation. We are focused on inculcating integrity, transparency and accountability among our workforce and across our business operations, while ensuring sustainable value creation for all shareholders. Robust internal control policies and practices are in place to protect our business reputation and stakeholders' interests. We also recently instituted a Group Whistle Blowing Policy to encourage employees and others to raise genuine concerns about any malpractices, illegal acts or omissions. The policy encourages them to do this at the earliest possible stage, in the right way, without fear of victimisation. This forms part of our commitment towards ensuring the Group's affairs and business are carried out in an ethical, professional and honest manner as well as to the highest possible standards, thereby creating true value for our stakeholders.

## CORPORATE RESPONSIBILITY

To ensure the Group's sustainable growth, your Board and management places the utmost importance on 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. Our on-going efforts on the corporate responsibility (CR) front saw us undertaking initiatives in the areas of the workplace, community, marketplace and environment to empower our many stakeholders and ensure the sustainable growth of our businesses. The details of our CR efforts can be found in the CR section on pages 36 to 39 of this Annual Report.

**RM1.49** *billion*

in revenue in FY2011 against the preceding year's RM1.09 billion

## OUTLOOK AND PROSPECTS

The Malaysian Government has forecast growth of between 5.0% and 5.5% for 2011 in its Budget 2012. However, economic think-tank Malaysian Institute of Economic Research (MIER), citing concerns that Europe's financial crisis could hit the country's trade-focused economy, has revised its estimate for 2011 growth down from 5.2% to 4.6%. MIER has posed a pessimistic global economic outlook, predicting that the world's economy will remain "fluid and increasingly worrying" in the light of further deterioration of the Eurozone's economic and financial environment. The fact that Malaysia's economy grew 4.0% in the second quarter of 2011, its slowest pace in nearly two years, points to softening global export demand. MIER predicts Malaysia's economic growth momentum will moderate from the second half of 2011 arising from a weaker exports outlook.

While the Board of Directors remain mindful of global uncertainties, we will continue to move cautiously forward with a positive outlook amidst the healthy prospects that the domestic oil and gas industry promises. Following PETRONAS' major oil and gas discoveries offshore Sarawak, the Malaysian government has embarked on a strategy to intensify exploration activities under the Economic Transformation Programme. In the near term, more exploration wells are expected to be drilled offshore Malaysia by PETRONAS and its production sharing contractors. These activities, especially if they result in discoveries, are expected to spur business opportunities in the oil and gas industry and will promote upstream investment in the country.

In light of this, our Board of Directors believes that capital spending in the upstream oil and gas sector will remain relatively strong. This includes enhancing recovery from existing fields and development of small and marginal fields. We are also encouraged by the recent announcement by the Malaysian Government that it will support downstream oil and gas activities. Based on this expectation and the Group's strong track record, we expect the demand for our core engineering and fabrication business and other oilfield services to remain encouraging. In addition, our expansion into offshore services is expected to expand the earnings base and profit margin of the Group. The Group is also looking towards expanding its fabrication business in the region. Barring unforeseen circumstances, the Board of Directors is confident that Kencana Petroleum's prospects in FY2012 will remain positive.

## APPRECIATION

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

We are also very deeply appreciative of the dedication and resilience of our hardworking employees in the face of the year's many challenges, especially the highly competitive environment that we operate in. My utmost thanks to my colleagues on the Board and our senior management team for their dynamic leadership and prudent insights which helped us achieve a successful and profitable FY2011. It is my hope that we will all continue to work together as one united and energetic team in the year ahead.

Going forward, I call upon all our stakeholders to continue placing their confidence in Kencana Petroleum as we work to take the Group up to the next level of success.

Thank you.

**Tan Sri Nik Mohamed bin Nik Yaacob**
Chairman

# *Group Chief Executive Officer's Review*

**DATO' MOKHZANI BIN MAHATHIR**
Group Chief Executive Officer

**Dear Shareholders,**

Kencana Petroleum Berhad continued to make noteworthy gains on the financial and operational fronts in FY2011. We delivered a 64% increase in profits after tax and 37% increase in revenue while maintaining a higher order book balance, valued at RM2.2 billion by the financial year's end. This strong performance came on the back of an on-going strategy of expansion and growth and was underpinned by further refinements to our systems, capabilities and workforce.

## A STRONGER OPERATING ENVIRONMENT

The Group experienced a stronger operating environment in FY2011 as the oil and gas industry gathered upward momentum on the back of steadily rising world oil prices and revitalised domestic development activities. Several factors helped spur sectoral growth. These included the announcement of four oil and gas entry-point projects under the Economic Transformation Programme amounting to USD20 billion; the plan to develop marginal fields; tax incentives to encourage the exploration of deeper and less-profitable oil fields; as well as an uptrend in the award of new oil and gas contracts. The increase in exploration activities and the rollout of a higher number of development plans all led to us securing more jobs over the course of the year.

## GROWTH AND EXPANSION STEPPED-UP

Against this encouraging backdrop, we stepped-up growth and expansion activities to move the Group further up the oil and gas value chain. Our efforts included strengthening our integrated service offering by acquiring a subsea services component and enhancing our core fabrication capability. We also ventured into the development and operation of marginal fields and extended our footprint to new international markets.

### New Subsea Component Added

Following the acquisition of Allied Marine & Equipment Sdn Bhd (AME), the Group now has a strong foothold in the subsea services segment. Our capability in this area covers the provision of a wide range of offshore diving and underwater-related services including construction, installation, inspection, repair and maintenance of oil and gas structures and pipelines. We also have the expertise to undertake subsea inspection and repairs for floating storage and offloading (FSO) as well as floating production, storage and offloading (FPSO) vessels. Moreover, the Group now has the means to undertake underwater work in deepwater areas by utilising remotely operated vehicles (ROV) and saturation diving systems. AME is unique in that it is one of only a few Malaysian companies that offers these specialised services. Kencana Petroleum will proactively seek out companies with a niche expertise and that are at the forefront of their industries to enhance our overall integrated services offering.

...our order book balance increasing from RM1.8 billion at the  start of FY2011 to

**RM2.2** billion

at the end of FY2011.

**Fabrication Capability Strengthened**

Fabrication is the core strength of the Group and we continued our strategy of optimising and scaling-up the production capability of our fabrication yard in Lumut. Since the start of FY2011, we have expanded our yard space and added a 30,000 metric tonne load-out jetty to position ourselves for bigger jobs in the future.  We have also put in place a production line for tubular pipe fabrication, added another covered workshop, and built a new operations office with amenities for staff and clients. This forms part of our on-going yard development activities to increase the efficiency and capacity of our fabrication business.

To further strengthen our fabrication and logistic activities as well as to support our hook up and commissioning and brownfield services operations, we have invested in a new 20-acre yard in Teluk Kalung, Kemaman, Terengganu and a new three-acre yard in Labuan.

In July 2011, we proposed to acquire a 60% equity interest in King Hang Engineering Company Limited in Hong Kong for approximately RM11.571 million. The company has a fabrication yard in Guangdong, China and is active in the steel fabrication market in southern China and Hong Kong. The acquisition, which was concluded in September 2011, allows us to gain access to new markets in the region. It also enables us to tap resources such as skilled labour that are needed to support the future expansion of our fabrication business.

**Marginal Field Development and Operation Kicks Off**

One of the year's key expansion initiatives saw our newly-formed subsidiary, Kencana Energy Sdn Bhd (Kencana Energy) form a consortium with Petrofac Energy Developments Sdn Bhd and Sapura Energy Ventures Sdn Bhd to develop and operate the Berantai field located 150 km offshore Terengganu. The consortium's risk service contract (RSC) with PETRONAS calls for the operating parties to carry out the development and production of petroleum resources from the marginal field. The total capital outlay for the first phase of the project is estimated to be RM2.48 billion. This includes the engineering, procurement, construction, installation and commissioning (EPCIC) of a jacket and wellhead platform for 18 wells and a FPSO vessel. Project cost recovery and income is expected to begin by first and second quarters 2012, respectively.

The joint operating venture made the best use of the Group's expertise in engineering and fabrication, plus offshore hook-up and commissioning services to deliver the wellhead platform in record time. This ability to deliver production quickly is critical to the economic viability of small and marginal fields.
The Berantai project also necessitates capability building within Kencana Energy for other areas that was not previously required from the group such as subsurface, production management and technology.
This allows Kencana Petroleum to take its first step towards participation at a higher level of the value chain in the upstream oil and gas industry.

**International Footprint Expanded**

We have been steadily making inroads abroad and FY2011 saw us further expand our international footprint. Our first contract in Iraq – a RM45 million contract for the construction of 18 skid modules for the Garaf oil field – marked our maiden foray into this market and the Middle East. We also secured a contract in Australia to fabricate components for the Gorgon LNG plant which will create fabrication support opportunities for offshore and onshore facilities. Closer to home in ASEAN, we secured a RM100 million contract in Brunei from Brunei Shell for the fabrication of two compression modules for the Ampa 9 – Brunei Water project. We made further progress in Vietnam, when we secured a subsea services contract from Petrovietnam Gas Services Company valued at approximately RM75 million to locate and repair severe metal loss features of the 16 inch Bach Ho to Long Hai Pipeline and 18 inch PM3 to Ca Mau Offshore Gas Pipeline.

We are constantly exploring opportunities in ASEAN and expect the regional oil and gas sector to remain bullish. In line with this, we plan to open representative offices in neighbouring countries by the middle of 2012. A domestic presence in these markets will afford us a better understanding of the intricacies of these markets. We will also explore the possibility of forming joint ventures or alliances with local and international companies in the markets we venture into. We have steadily built up our reputation as a reliable and professional fabricator and we are now the contractor of first choice by many clients.

**ORDER BOOK STRENGTHENED**

We continued to aggressively pursue new projects over the course of FY2011 which resulted in our order book balance increasing from RM1.8 billion at the start of FY2011 to RM2.2 billion at the end of FY2011. The year saw several projects making notable

Some sizable fabrication contracts included the RM272 million fabrication works contract for a central processing platform with living quarters for Newfield Malaysia.

contributions to our earnings. This included maiden contributions from KM-1's approximate RM728 million offshore drilling service contract with PETRONAS Carigali Sdn Bhd as well as maiden contribution from the newly acquired subsea services of AME.

Fabrication contracts continued to be the main contributor to our revenue. Some sizable fabrication contracts included the RM272 million fabrication works contract for a central processing platform with living quarters for Newfield Malaysia; the RM275 million fabrication works contract for two gas compression modules for Sarawak Shell; and the RM225 million fabrication works contract for the Gorgon LNG plant in Australia.

The Newfield contract was one of the year's landmark projects as this was our first project for the construction of a central processing platform comprising integrated services such as living quarters, a processing platform and a well head platform. Another landmark project was the fabrication of the heaviest substructure in Malaysia – a 14,000 MT jacket for Kebabangan Petroleum Operating Co Sdn Bhd.

We have been known in the industry as one of the leading engineering, procurement, construction and commissioning (EPCC) provider for fast-track projects. This was further proven when we secured a RM121 million contract from Petrofac E&C Sdn Bhd for the EPCC of a mobile offshore production unit (MOPU) and Wellhead Support Structure. This contract for the Sepat Early Production System off the coast of Terengganu was completed in the third quarter of this year within an impressive ten-month timeframe, making it one of the fastest EPCC project for a MOPU. This was soon followed by the completion of the fabrication of Berantai well head platform within a period of six months.

Our proven track record has also secured us a contract from Petrofac Ltd for the Cendor Phase 2 project located off the coast of Terengganu. While 2005 saw us constructing the MOPU that was used in Phase 1 of the Cendor project, the contract for Phase 2 involves engineering, procurement and construction works for two well head platforms. This project is scheduled for completion within the second quarter of 2012.

We are confident that the operating environment will remain conducive and that activities will remain robust in the integrated services arena. This positive operating environment coupled with our good track record with our existing clients, plus the promising opportunities in the new international market, will give us the push to secure more contracts and further extend our order book visibility. Going forward, the challenge will be to maintain our competitive edge in the new markets we venture into. We are confident that our operational efficiencies, depth of experience, strong integrated services offering and sound track record will help us maintain our competitive edge in the international arena.

## COMPETITIVE EDGE ENHANCED

As we move closer towards becoming a full-fledged EPCIC company, we are proactively maintaining our competitive edge amidst tough market environment. The year saw us continuing to refine our systems and capabilities while increasing our resources both in terms of assets and talent pool.

### Consolidation and Centralisation Brings Rewards

Through consolidating our resources and rolling out a centralised tender, procurement and engineering system, the Group is beginning to enjoy the benefits of increased cost efficiencies. We have also streamlined our vendors and suppliers to further enhance our cost competitiveness. Following the centralisation of the Group's companies under one roof, we are reaping the benefits of stronger integration and a more interactive working relationship between the subsidiaries and the parent company. The exercise has enabled the subsidiaries to better leverage on the expertise and capabilities of the Group and roll out stronger, more effective marketing and tendering activities.

Kencana Petroleum is unique as we utilise a lot of in-house resources as compared to outsourcing or sub-contracting of our projects. We are also able to offer improved cost efficiencies via increasing automation in the fabrication processes and through centralising our activities. Being first and foremost a fabricator and knowing how things are built from scratch allows us to better understand cost structures and resource deployment in any project.

**People Development Strengthens Our Worth**

As we continue to grow we are constantly challenged by the need to secure suitable and experienced manpower in a highly competitive market. Trying to put together the required workforce to undertake bigger jobs always presents a challenge, but we have managed to overcome this by conducting our own internal programmes to recruit, train and equip ourselves with people of the right calibre. As we work towards becoming a fully integrated EPCIC powerhouse, we will continue to develop the experience, capabilities and expertise of our own people, inculcate a healthy and safe working environment, as well as provide competitive remuneration.


## WELL-POSITIONED FOR NEW OPPORTUNITIES

As we set our sights on the future and take note of global uncertainties, the Group remains optimistic about our prospects for the next few years. The many positive industry developments especially the renewed focus on domestic operations and capital intensive investments augurs well for us. We are committed to being at the forefront of these opportunities.

Our expansion into marginal field development and operation is a step in the right direction and bodes well for us in the long run. International oil companies are now being encouraged to look at marginal fields while the production sharing contract companies (PSCs) that are geared towards oil and gas production have also been given further incentives. In line with this, we can expect to see more local companies partnering with international companies to source for marginal fields either through RSCs or PSCs. Expansion into new marginal field contracts will offer service providers the prospects of improved order flow.

While shallow water work continues to be an important area of focus for us, deepwater activities will continue to be an area of development. Our acquisition of subsea inspection, repair and maintenance service company, AME, and the impending merger with SapuraCrest Petroleum will strengthen our capability in this area. While the Group has in its own right grown from strength to strength, becoming a market leader and industry forerunner in many ways, our option to leverage on SapuraCrest Petroleum's strengths will create strong synergies in the areas of revenue and cost. By doing this, we can rise up to the next level with an expanded suite of services to better capitalise on global market prospects.

In light of all the above and at the same time weighing the concerns about economic uncertainty, we remain reasonably confident of the Group's prospects going forward into FY2012. The strong foundations we have laid down and the new areas of growth will help us remain resilient.

## APPRECIATION

We have enjoyed a successful year in FY2011 and there are many to thank for this. Firstly, I wish to extend my utmost gratitude to our valued shareholders as well as PETRONAS and other valued customers for their unwavering support and confidence in us. My sincere thanks to the Malaysian Government, regulatory authorities and other government agencies for their continued support of the Group and the industry we operate in. My deep appreciation also goes to our business partners, contractors, suppliers, bankers and financiers for their steadfast support.

I am also deeply grateful to our Board of Directors and my colleagues on the leadership team for their wise counsel and insights which helped take us forward to new heights of success. Last but not least, I must pay tribute to the Group's loyal employees whose worthy contributions and sacrifices have been key to our success. I trust that all our stakeholders will continue to work together as one as we embrace the many challenges and opportunities ahead and continue our journey towards greater success.

Thank you.

**Dato' Mokhzani bin Mahathir**
Group Chief Executive Officer

# Events for the Year


14 December 2010

**6th Annual General Meeting**

Sime Darby Convention Centre

31 January 2011

**Signing Ceremony of Risk Service Contract for the development and production of Berantai Field**

Malaysian Petroleum Club, KLCC


20 February 2011

**Kencana-SIC Bikeathon**

Sepang International Circuit


9 May 2011

**Signing Ceremony of Gas Compression Modules with Sarawak Shell Berhad**

Kencana Petroleum Fabrication Yard


**Official Visit of**
**Chief Minister of Perak**

Kencana Petroleum
Fabrication Yard


**Oil and Gas Asia 2011**

Kuala Lumpur Convention Centre


**Extraordinary General Meeting**

Kuala Lumpur Golf & Country Club


**Signing Ceremony of**
**Sukuk Mudharabah Agreement**
**with AmInvestment Bank Berhad**

Le Meridien Hotel, Kuala Lumpur

# *Events for the Year (continued)*


**MoU with PETRONAS for the industry's development, capability building and education activities**

Malaysian Petroleum Club, KLCC


**MOPU Sepat Sailaway Ceremony**

Kencana Petroleum Fabrication Yard


**Iftar session with orphans**

Kencana Petroleum Fabrication Yard


## 5 September 2011

**MRSM Revolutionary Programme 2011**

Technology Park Malaysia


## 12 September 2011

**Kencana Petroleum Hari Raya Open House**

Sime Darby Convention Centre


## 8 October 2011

**Yayasan UTP and Dana Asy-Syakirin Charity Golf Tournament**

KGSAAS, Shah Alam


## 12 October 2011

**Berantai Wellhead Platform Sailaway and HSE Day**

Kencana Petroleum Fabrication Yard

# Corporate Responsibility

## ENHANCED WORKPLACE PRACTICES

Our commitment to workplace safety and health has always been and continues to be an overriding priority within our operations.
In line with our workplace mantra i.e. "Safety is not compromised for any reason whatsoever," we conduct our operations in a manner that safeguards all employees, sub-contractors and visitors to our sites.

The competency of our employees in carrying out their tasks in a safe environment is of paramount importance to us, while we also place a high priority on assessing all hazards and applying controls to mitigate risks to practicable levels. The Group's Health, Safety and Environment Management System is our primary tool of reference to manage our activities safely, efficiently and effectively, without harm to people, the environment, material or equipment.

In FY2011, we strengthened our existing Health, Safety and Environmental (HSE) measures to ensure workplace safety and health as well as the preservation of our surroundings. Among the significant feature of these efforts were the enhancements made to establish, implement and monitor HIRADC measures (i.e. Hazard Identification, Risk Assessment and Determining Control) in relation to existing work processes.

The following reflect the leading indicators that have been in place at the Kencana Petroleum Fabrication Yard in Lumut for some time. They are continuously being fine-tuned and enhanced:

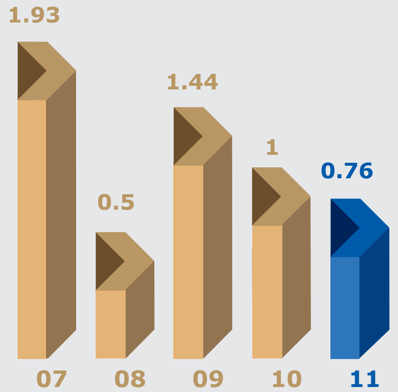
**Leading Indicators**

- **Management Walkabout and Intervention Programme** – This activity involves the Managing Director (MD), General Managers, Senior Managers and Project Managers carrying out day and night walkabouts throughout the yard and dealing with any problems or deficiencies there and then. Where previously there may have been a short time lag from when hazards and risks were identified to the time corrective actions were implemented, these are now rectified on the spot.

- **MD HSE Dialogue** – The MD initiates dialogue sessions with different groups of employees and sub-contractors on a bi-monthly basis. This gives employees an opportunity to voice out any problems or issues and how best to overcome them.

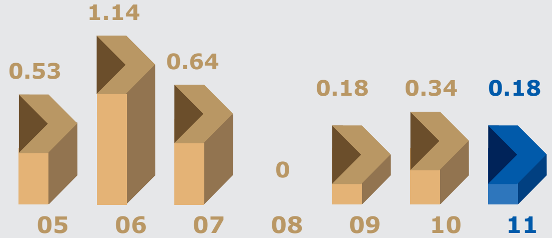
- **Sub-Contractor HSE Inspection and Audit** – Sub-contractors are audited on a monthly basis to determine any failings. If anything is amiss, a corrective-preventive action request (C-PAR) is issued and the responsible party will have to respond

As Kencana Petroleum grows from strength to strength, we are reinforcing our commitment to our many stakeholders as well as the communities and environment that we operate in by carrying out responsible business practices that create value and have positive impact. In FY2011, we continued to undertake impactful corporate responsibility (CR) initiatives in the areas of the workplace, community, marketplace and environment to empower our many stakeholders and ensure the sustainable growth of our businesses.




**TOTAL RECORDABLE CASE FREQUENCY**

**2007-September 2011**




**LOSS TIME INJURY FREQUENCY**

**2005-September 2011**

within three working days. A stringent pre-qualification process ensures only competent sub-contractors are hired.

- **Quarterly HSE Campaigns** – These workplace HSE awareness campaigns enable us to analyse accident trends in the workplace and pinpoint any areas that require attention. Various programmes are implemented in conjunction with quarterly campaigns to increase safety awareness as well as inculcate a proactive intervention culture among our workforce.

- **Quarterly Emergency Drill Exercise Life Saving Rules** – These quarterly drills test the effectiveness of our emergency response capabilities as well as ensure employees are able to react effectively and safely to avoid any secondary incidences.

- **HSE Task Force** – This task force consists of teams with different expertise that jointly identify hazards, assess risks and apply controls. The task force also engages with the employees to pinpoint the good behaviours and the unsafe acts or conditions.

- **UCUA (Unsafe Condition Unsafe Act) Reporting and Trending Analysis** – This involves reporting unsafe conditions and acts via a UCUA card made available to all staff. The cards are reviewed by the respective HSE officers and trending is plotted to ascertain weaknesses. HSE officers also identify key areas where additional controls are required.

- **Operations and Project HSE Committee Inspection and Action Plan** – This involves a committee comprising management and worker representatives meeting on a bi-monthly basis. They review high risk activities, adopt appropriate action plans, appoint action parties and resolve issues within specific time frames.

- **Noise Monitoring and Controls** – Noise exposure tests in various workplace zones are conducted annually to help identify areas that require hearing protection controls.

- **Chemical Health Risk Assessment** – This activity is conducted every five years to identify activities which are hazardous to employee health. Specific controls such as fume dilution methods, an effective work rotation system as well as the use of respirators are then implemented to reduce employees' exposure to these elements. The last such assessment was conducted in 2010.

Similar HSE-enhancing steps based on the respective industry standards are implemented by the offshore services divisions such as drilling, hook-up and commissioning, and offshore support vessels.

In tandem with our enhanced HSE efforts, we achieved a Total Recordable Case Frequency (TRCF) of 0.76 in September 2011 against a TRCF of 1.0 in 2010. The Loss Time Injury Frequency (LTIF) too decreased to 0.18 in September 2011 as opposed to a LTIF of 0.34 in 2010.

The housekeeping standards at our Lumut Fabrication Yard continue to impress visitors. Even as our existing and potential clients look for such achievements to benchmark the contractors they will work with, we are committed to maintaining the highest HSE standards throughout our operations.

The year's workplace initiatives also included efforts to inculcate a healthier lifestyle among staff in the Group. In line with this, a Sports and Recreation Committee was formed to organise sporting activities including futsal, badminton and bowling tournaments.

### COMMUNITY-EMPOWERING INITIATIVES

The year in review saw Kencana Petroleum continuing to undertake impactful CR initiatives to empower communities. Youth and industry development programmes in particular featured strongly in our efforts to elevate the livelihood of the communities within the locality of our operations and throughout the nation.

In May 2011, we launched the Kencana HL Sdn Bhd Welding Training Centre at our Lumut Fabrication Yard. Through the welding internship programmes at the centre, we are seeking to train and develop local talent for the oil and gas industry. About 40 students will graduate annually from this six-month programme which is being conducted in collaboration with Institut Kemahiran MARA and we will look to employ them permanently upon the completion of their courses. The Group will continue to explore other ways of implementing education-led initiatives that will provide the industry with a skilled and high-calibre talent pool to draw from.

We also continued our support of the Mara Junior Science Colleges (MRSM) Ideapreneur Innovation Programme with a sponsorship of RM100,000 in 2010 and 2011. Launched in 2010, this successful programme is helping spur on some of the nation's most innovative and creative youth. The inaugural programme saw 60 participants representing 45 MRSM branches nationwide competing in the finals held at the Innovation Hotspot at Technology Park Malaysia in December last year.

Kencana Petroleum continues to support CR initiatives in the area of "green sports," specifically activities that help elevate the cycling fraternity and uncover young talent. We see cycling as one of the more thrilling sports that involves non-fossil energy and it falls in line with our objective of reducing pollution and promoting healthy living. In FY2011, we continued to promote cycling at the grassroots level by co-organising the Kencana-SIC Bikeathon 2011 with Sepang International Circuit (SIC) for the third consecutive year. 2011's competition attracted more than 600 local and international participants from Japan, Iran, Indonesia and Germany. Via the event's criterium bike races, up-and-coming riders had the opportunity to showcase their abilities while the more established riders had a platform to prepare for the bigger races. We are proud to play our part in supporting Malaysia's athletes on an annual basis.

As part of FY2011's commitment to empowering communities, we carried out blood donation drive involving a total of 130 employees and attended to the needs of the underprivileged through several initiatives, including organising a buka puasa event for the orphans of Kompleks Pendidikan Manabi'ul Ulum. All in all, FY2011 saw us channelling some RM300,000 in total towards community and educational initiatives.

## IMPACTFUL MARKETPLACE ACTIVITIES

We continue to make good strides forward in relation to CR initiatives on the marketplace front. In August 2011, Kencana Petroleum signed a memorandum of understanding (MOU) with PETRONAS to train and develop local talent to serve the oil and gas industry. Our collaboration calls for the development of mutually beneficial training and development programmes to enhance engineering and technical competencies within the industry. The scope of the MOU also involves capability development covering joint research and development activities, attachment opportunities for technical personnel, information sharing sessions, student internships, sponsorship activities as well as industry expert talks.

In line with our efforts to protect the Group's marketplace reputation as well as ensure sustainable value creation for all shareholders, we continue to strengthen our corporate governance and risk management practices. The stringent internal control policies and practices we have in place to protect our businesses and stakeholder interests are spelt out in our Statement on Corporate Governance, the various Board Committees' reports and the Statement on Internal Control.

The new financial year will see a Group Whistle Blowing Policy being rolled out, while our risk mitigation activities will take into account new risk factors and new developments within the oil and gas operating environment. In terms of reputation management, particularly on the branding front, the integration of our diverse businesses and the rollout of a singular brand identity have certainly helped strengthen our brand recall.

## ENVIRONMENTAL-FRIENDLY PRACTICES

The Group remains committed to operating in a responsible and environmentally friendly manner in compliance with local and international environmental best practices and legislation. The certification of our ISO 14001:2004 Environmental Management System (EMS) demonstrates how determined we are to protect the environment.

The Group's green initiatives to date include energy conservation activities, water sampling for wastewater and effluents discharge as well as oil spill containment. Our activities also cover the construction of bund walls for oil, paint and chemical storage facilities and waste storage facilities. We also ensure the placement of filtration and dust collectors for all auto blast machines to eliminate the release of contaminated particles. In the way of scheduled wastes, we have put in place an effective segregation, storage and disposal system. Disposal of the Group's scheduled wastes is done in accordance with legislative requirements while licensed contractors undertake all collection and disposal activities. All in all, these conservation efforts have resulted in cost savings on energy, water consumption and paper in addition to providing the Group better control over the management of chemicals and other hazardous materials. We have also successfully reduced waste and carbon emissions.

In FY2011, we played our part in contributing to the preservation of the environment by participating in the global Earth Hour event. We continue to undertake on-going initiatives to green our Lumut yard and the surrounding areas. All these environmental efforts are doing much to make the Group's operations more transparent and credible in the eyes of upstream oil and gas players.

As we move forward, Kencana Petroleum remains committed to implementing tangible CR practices that will create value and impact positively on our many stakeholders as well as the communities and environment that we operate in.

# Corporate Information

## BOARD OF DIRECTORS

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

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

**Chong Hin Loon**
Non-Independent Executive Director

**Yeow Kheng Chew**
Non-Independent Executive Director

**Ir. Cher Lee Kiat**
Non-Independent Executive Director

**Azmi bin Ismail**
Non-Independent Executive Director

**Tunku Dato' Mahmood Fawzy bin Tunku Muhiyiddin**
Senior Independent Non-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

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

## NOMINATING COMMITTEE

**Syed Zaid bin Syed 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

## REMUNERATION COMMITTEE

**Syed Zaid bin Syed 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

## COMPANY SECRETARIES

**NG HENG HOOI**
(MAICSA 7048492)

**WONG MEE KIAT**
(MAICSA 7058813)

## REGISTERED OFFICE

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Fax : (6)03-2072 8101

## CORPORATE OFFICE

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Solaris Dutamas, No. 1
Jalan Dutamas 1
50480 Kuala Lumpur, Malaysia
Tel : (6)03-6209 8000
Fax : (6)03-6209 3800

## SHARE REGISTRAR

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

## AUDITORS

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

## PRINCIPAL BANKERS/FINANCIERS

Affin Bank Berhad
Al Rajhi Bank (Malaysia) Berhad
AmBank (M) Berhad
AmInvestment Bank Berhad
Bank Islam Malaysia Berhad
Bank Muamalat Malaysia Berhad
BNP Paribas, Labuan Branch
Deutsche Bank (Malaysia) Berhad
EonCap Islamic Bank Berhad
HSBC Bank Malaysia Berhad
Kuwait Finance House (Malaysia) Berhad
Malayan Banking Berhad
OCBC Al-Amin Bank Berhad
RHB Bank Berhad
Standard Chartered Saadiq Berhad
United Overseas Bank (Malaysia) Berhad

## STOCK EXCHANGE LISTING

Main Market of
BURSA MALAYSIA SECURITIES BERHAD
Stock Code: 5122

# Corporate Structure

KENCANA PETROLEUM

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

**100%**
**Kencana Marine Sdn Bhd**
Operation and Management of Fabrication Yard

**100%**
**Kencana Infrastructure Sdn Bhd**
Specialised Fabrication and Infrastructure Construction

**100%**
**Kencana Bestwide Sdn Bhd (KBW)**
EPCC and Project Management

**30%**
**Best Wide Engineering (M) Sdn Bhd**
Design and Engineering Services

**30%**
**Matrix Maintenance Sdn Bhd**
Valve Testing and Maintenance

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

**100%**
**Kencana Marine Drilling Sdn Bhd**
Offshore Drilling & Drilling Related Services in the Oil and Gas Industry

**100%**
**Kencana Marine Rig 1 (Labuan) Pte Ltd**
Drilling Rig Owner & Drilling Related Services

**100%**
**Kencana Nautilus Sdn Bhd**
Operator of Marine Transportation & Support Services

**100%**
**Redang (Labuan) Pte Ltd**
Offshore Support Vessel Owner

**100%**
**Gemia (Labuan) Pte Ltd**
Offshore Support Vessel Owner

100%

**Kencana Pinewell Sdn Bhd (KPW)**
Offshore & Onshore Construction Support Service, Hook-up & Commissioning, Operation & Maintenance and Decommissioning

100%

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

100%

**Kencana Torsco Overseas Sdn Bhd**
EPFCC Works for International Market

100%

**Kencana Torsco (Hong Kong) Private Limited**
EPCC of Structural Steelworks

60%

**King Hang Engineering Company Limited, HK**
Steel Fabrication and Erection

100%

**Kencana Energy Sdn Bhd (KE)**
Field Development and Production of Oil and Gas

100%

**Allied Marine & Equipment Sdn Bhd (AME)**
Offshore Diving
ROV & Related Services

100%

**AME Marine Services Sdn Bhd**
Vessel Related Management Services

100%

**Allied Support Corporation**
Offshore Support Vessels Owner

100%

**AME Corporation**
Offshore Diving & Related Services

# Board of Directors

From left to right:

| | |
|---|---|
| **Chong Hin Loon** | Malaysian, Non-Independent Executive Director |
| **Yeow Kheng Chew** | Malaysian, Non-Independent Executive Director |
| **Dato' Mokhzani bin Mahathir** | Malaysian, Non-Independent Executive Director<br>Group Chief Executive Officer |
| **Tan Sri Nik Mohamed bin Nik Yaacob** | Malaysian, Independent Non-Executive<br>Chairman |

From left to right:

| | |
|---|---|
| **Ir. Cher Lee Kiat** | Malaysian, Non-Independent Executive Director |
| **Azmi bin Ismail** | Malaysian, Non-Independent Executive Director |
| **Tunku Dato' Mahmood Fawzy Tunku Muhiyiddin** | Malaysian, Senior Independent Non-Executive Director |
| **Mohd Adzahar bin Abdul Wahid** | Malaysian, Independent Non-Executive Director |
| **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 62, was appointed to the Board on 16 September 2008 and presently he is the Independent Non-Executive Chairman of Kencana Petroleum. He graduated with a Bachelor of Engineering from Monash University, and a Master in Business Management from Asian Institute of Management. He also completed an Advanced Management Program at Harvard University. He served as the Group Chief Executive of Sime Darby Berhad from 1993 until his retirement in June 2004 and during this period, he also served on the Boards of the Sime Darby group of companies. Other Malaysian public companies in which he is a director are Scomi Group Berhad, GuocoLand (Malaysia) Berhad and Bolton Berhad.

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

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

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

**Dato' Mokhzani bin Mahathir**, aged 50, 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 Opcom Holdings Berhad, Maxis Berhad, Sime Darby Auto Performance Sdn Bhd, Kencana Capital Sdn Bhd and several other private limited companies. He is also the Chairman of Sepang International Circuit Sdn Bhd, a position he has held since 2003.

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

# Profile of Board of Directors *(continued)*

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

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

**Chong Hin Loon**, aged 63, was appointed to the Board on 15 September 2005 and presently he is the Non-Independent Executive Director of Kencana Petroleum. He is primarily responsible for the operations, project management and yard operations of Kencana Petroleum Group. He holds an MBA in Advanced Strategic Management from Northwestern International University and a Diploma in Shipbuilding Construction from Singapore. He started his career in 1970 with Keppel FELS in Singapore, starting from a low ranking level and moving his way up to a Construction Supervisor before leaving in 1975. He later joined Promet Pte Ltd, Singapore, as a Project Engineer where he was responsible for the construction of oil rigs and vessels, ship repairs and other marine facilities in the oil and gas sector. In 1976, he joined Maroil Shipbuilding & Engineering Pte Ltd as a Project and Construction Manager where he was heavily involved in oil and gas related projects.

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

**Yeow Kheng Chew**, aged 59, 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**

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

**Ir. Cher Lee Kiat**, aged 56, was appointed to the Board on 15 September 2005 and presently he is the Non-Independent Executive Director of Kencana Petroleum. He is primarily in charge of Centralised Services Division comprising Engineering, Procurement and Tender. He obtained his Bachelor of Engineering Honours (Chemical) from the University of Malaya. He is a Fellow of the Institution of Engineers Malaysia (FIEM), a Professional Engineer registered with the Board of Engineers, Malaysia, a Corporate Member of the Institution of Chemical Engineers, UK, and a Chartered Engineer of the Council of Engineers, UK.

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

**Azmi bin Ismail**, aged 50, 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 25 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 programmes.

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


**Tunku Dato' Mahmood Fawzy**, aged 53, was appointed to the Board on 29 September 2010 and presently he is the Independent Non-Executive Director of Kencana Petroleum. He holds a Bachelor of Arts (Hons) in Business Studies from the Polytechnic of Central London, U.K, and a Master in Business Administration (MBA) from Warwick University, U.K. He is also a member of the Malaysian Institute of Management (MIM).

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

He is a member of Audit and Risk Management Committee, Chairman of the Group Risk Management Steering Committee and also the Senior Independent Director of Kencana Petroleum.

**Mohd Adzahar bin Abdul Wahid**, aged 47, was appointed to the Board on 3 January 2006 and presently he is the Independent Non-Executive Director of Kencana Petroleum. He is a Chartered Accountant by profession and is a Fellow Member of Association of Chartered Certified Accountants (United Kingdom), a Member of Malaysian Institute of Accountants and a Member of Financial Planning Association of Malaysia. He has vast experience in the areas of accounting, auditing, finance and corporate services. He started his career in accounting and auditing in the United Kingdom before serving Bumiputra Merchant Bankers Berhad (now known as Alliance Investment Bank Berhad) for 6 years. He last served there as Corporate Banking Manager. He subsequently served Naluri Berhad as Corporate Finance Manager for one year.

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

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

**Syed Zaid bin Syed Jaffar Albar**

Malaysian,

**Independent Non-Executive Director**

**Syed Zaid bin Syed Jaffar Albar**, aged 57, was appointed to the Board on 16 September 2008 and presently he is the Independent Non-Executive Director of Kencana Petroleum. He obtained his B.A. (Hons) Law from the United Kingdom and is qualified as a Barrister-at-Law, Lincoln's Inn, U.K. He was called to the Malaysian Bar as an advocate and solicitor of the High Court of Malaya in 1980 and has been active in legal practices ever since. Presently, Syed Zaid is the managing partner of an established law firm in Kuala Lumpur. Apart from that, he holds other directorships in public companies including Malaysia Building Societies Berhad, Malaysian Pacific Industries Berhad and Narra Industries Berhad.

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

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.

# Statement on Corporate Governance

The Board of Directors ("the Board") of Kencana Petroleum Berhad ("Kencana Petroleum") confirms that throughout the financial year ended 31 July 2011, it has continued to integrate good and effective corporate governance practices into the overall business direction and management of Kencana Petroleum Group of companies ("the Group").

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

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

## THE BOARD OF DIRECTORS

### Composition, Duties And Responsibilities

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

The Board consist of nine (9) directors, with one (1) independent non-executive Chairman, five (5) non-independent executive directors and three (3) independent non-executive directors. The Board is satisfied that its current composition fairly reflects the investment of the Company, and that its current size and composition are effective for the proper functioning of the Board. The independent non-executive directors are independent of management and are free from any businesses or other relationships that could materially interfere with the exercise of independent judgment. The independent directors provide a broader view and an independent and balanced assessment.

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

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

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

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

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

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

**Board Meetings and Supply of information**

During the financial year ended 31 July 2011, the Board met eight (8) 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 2011 are as follows:

| Directors | No. of attendance and meetings |
|---|---|
| Tan Sri Nik Mohamed bin Nik Yaacob | 7/8 |
| Dato' Mokhzani bin Mahathir | 8/8 |
| Chong Hin Loon | 8/8 |
| Yeow Cheng Khew | 8/8 |
| Ir. Cher Lee Kiat | 7/8 |
| Azmi bin Ismail | 6/8 |
| Mohd Adzahar bin Abdul Wahid | 8/8 |
| Syed Zaid bin Syed Jaffar Albar | 7/8 |
| Tunku Dato' Mahmood Fawzy bin Tunku Muhiyiddin | 7/8 |

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

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

**Board Committees**

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

The terms of reference of the Board Committees are set out on pages 55 to 61 of this Annual Report.

**Appointment And Retirement Of Directors**

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

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 7th Annual General Meeting, Tan Sri Nik Mohamed bin Nik Yaacob, Dato' Mokhzani bin Mahathir and Syed Zaid bin Syed Jaafar Albar are due to retire pursuant to Article 94 of the Articles. Being eligible, they have offered themselves for re-election.

**Directors' Training**

All the Directors of the Company have completed the Mandatory Accreditation Programme prescribed by Bursa Securities. The Board recognises the importance of Directors being kept abreast of industry development and trends. The Company has on an ongoing basis identified conferences and seminars which will be beneficial to the Directors.

The Directors have individually or collectively attended the following trainings/seminars during the financial year ended 31 July 2011:

1. **2011 Offshore Technology Conference**
2. **16th Asia Oil and Gas Conference**
3. **CEO Forum 2010 "Approaching 2020 Malaysia's Decade for Growth"**
4. **Roundtable Discussion on "The Code of Public Governance"**
5. **In-House Directors' Training "Corporate Governance – The Holistic Board"**
6. **CEO Forum 2011 "Transforming Malaysia: Challenges on the road to becoming a high income economy"**
7. **Powering Global Excellence**
8. **Investment Outlook**
9. **Invest Malaysia 2011**
10. **Economic Transformation Programme**
11. **Mid Year Investment Outlook**
12. **ESIX Program – Team Building**
13. **H.E.I.G.H.T Program – Team Building**
14. **International Corporate Governance Network**
15. **10 years Assessment of the Financial Master Plan**
16. **Corporate Governance – The Holistic Board**

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

### Directors' Remuneration

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

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

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

Details of Directors' remuneration for the financial year ended 31 July 2011 are as follows:

| | Executive Directors RM | Non-Executive Directors RM |
|---|---:|---:|
| Salary | 5,107,885 | – |
| Fees | – | 260,000 |
| Allowances | 1,725,000 | 139,000 |
| * Other Emoluments | 1,968,578 | – |
| Total | 8,801,463 | 399,000 |

* Other emoluments include bonuses and statutory contributions

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

| Range of Remuneration | Number of Directors |
|---|---:|
| RM50,001 - RM100,000 | 3 |
| RM100,001 – RM150,000 | 1 |
| RM650,001 – RM700,000 | 1 |
| RM700,001 – RM750,000 | 1 |
| RM2,200,001 – RM2,250,000 | 2 |
| RM2,900,001 – RM2,950,000 | 1 |

## ACCOUNTABILITY AND AUDIT

### Financial Reporting

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

### Internal Control

The Board firmly believes in maintaining a sound systems 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 69 of this Annual Report.

### Whistle Blowing Policy and Procedure

The Board is committed to maintaining the highest standards of corporate governance throughout the Group. In relation with that, the Group has established its Whistle Blowing Policy and Procedure. This policy is to encourage employees and others to raise concerns about malpractice or illegal acts at earliest possible stage without fear of victimization. The Whistle Blowing Policy and Procedure and the formal channel to report are set out in the Company's website at www.kencanapetroleum.com.my.

### Relationship with Auditors

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

## RELATIONS WITH SHAREHOLDERS AND INVESTORS

### Annual General Meeting

Annual General Meeting ("AGM") is the principal forum for dialogue with shareholders. At the Company's AGM, shareholders have direct access to the Board and are given opportunities to ask questions. The shareholders are encouraged to participate in the question and answer session. The Group CEO in the AGM presents to the shareholders, the Company's operations in the financial year and outlines future prospects of the Group.

### Dialogue between the Company and Investors

The Company values dialogue with shareholders and investors as a means of effective communication that enables the Board to convey information with regards to the Group's performance, corporate strategy and other matters that affect shareholders' interest. The Company holds discussions with analysts and institutional shareholders regularly.

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

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

### Audit and Risk Management Committee ("ARMC")

The Board has delegated the ARMC to oversee assessment of processes relating to the Group's risks and controls. The ARMC is of the view that the management has implemented policies in ensuring that the Group's risks are identified and evaluated and that controls in place are adequate and functioning properly to address the risks. The ARMC consists of four (4) Independent non-executive Directors. The ARMC report sets out its terms of reference, membership and summary of activities on pages 62 to 66 of this Annual Report.

### Nominating Committee ("NC")

#### Composition And Size

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

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

#### Chairman

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

### Secretary

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

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

### Meetings

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

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

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

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

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

### Performance Evaluation

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

### Authority

The NC is authorised by the Board to discharge its duties and responsibilities set out below. The NC shall not have the power to implement its recommendations but shall be obliged to report its recommendations to the full Board for the Board's consideration. In discharging its duties and responsibilities, the NC shall have access to all required information and assistance from personnel within the Group. The NC is further authorised by the Board to obtain external professional advice and to secure the attendance of representatives of such external advisers if it considers necessary.

### Duties and Responsibilities

The duties and responsibilities of the NC shall be:

(a) to recommend to the Board, candidates for all Directorships to be filled by the shareholders or the Board taking into consideration the candidates':

- skills, knowledge, expertise and experience;
- professionalism;
- integrity; and
- in the case of candidate for the position of Independent Non-Executive Director, the NC shall also evaluate the candidate's ability to discharge such responsibilities/functions as expected from Independent Non-Executive Directors.

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

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

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

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

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

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

(h) to assess desirable numbers of Independent Directors;

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

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

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

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

**Remuneration Committee ("RC")**

**Composition and Size**

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

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

**Chairman**

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

**Secretary**

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

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

**Meetings**

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

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

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

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

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

### Authority

The RC is authorised by the Board to discharge its duties and responsibilities set out below. The RC shall not have the power to implement its recommendations but shall be obliged to report its recommendations to the full Board for the Board's consideration. In discharging its duties and responsibilities, the RC shall have access to all required information and assistance from personnel within the Group. The RC is further authorized by the Board to obtain external professional advice and to secure the attendance of representatives of such external advisers if it considers this necessary.

### Duties and Responsibilities

The duties and responsibilities of the RC shall be:

- to develop for the Board's approval, the Group's remuneration policy for Executive Directors; and
- to recommend to the Board, the remuneration packages and terms of employment of Executive Directors.

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

The Group shall ensure that its remuneration framework is robust and effective enough in the following areas:

- attracting and retaining key personnel of requisite quality that increases productivity and profitability in the long run;
- motivating and creating incentives for Directors to perform at their best; and
- focusing attention on the achievement of desired goals and objectives.

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

### Disclosure of Directors' Remuneration

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

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

## Options Committee ("OC")

### Composition and Size

The OC shall be appointed by the Board from amongst the Directors of Kencana Petroleum and shall consist of not less than three (3) members. In the event of any vacancy with the result that the number of members is reduced to below three (3), the vacancy must be filled within three (3) months.

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

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

**Chairman**

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

**Secretary**

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

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

**Meetings**

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

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

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

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

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

**Authority**

The OC is authorised by the Board to discharge its duties and responsibilities set out below. The OC shall not have the power to implement its recommendations but should be obliged to report its recommendations to the full Board for the Board's consideration. In discharging its duties and responsibilities, the OC shall have access to all required information and assistance from personnel within the Group. The OC is further authorized by the Board to obtain external professional advice and to secure the attendance of representatives of such external advisers if it considers this necessary. The OC is granted the authority to administer the ESOS at its discretion, with such powers and duties are as conferred upon.

**Duties and Responsibilities**

The duties and responsibilities of the OC shall be:

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

**Executive Committee ("EXCO")**

**Composition and Size**

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

**Chairman**

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

**Secretary**

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

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

**Meetings**

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

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

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

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

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

### Authority

The EXCO is authorised by the Board to discharge its duties and responsibilities set out below. The EXCO shall not have the power to implement its recommendations but shall be obliged to report its recommendations to the full Board for the Board's consideration. In discharging its duties and responsibilities, the EXCO shall have access to all required information and assistance from personnel within the Company. The EXCO is further authorized by the Board to obtain external professional advice and to secure the attendance of representatives of such external advisers if it considers this necessary.

### Duties and Responsibilities

The duties and responsibilities of the EXCO shall be:

(a) setting the capital and investment plan, financial budget, the business target of the Group and the plans or reports as may be required by the Board from time to time and to ensure the implementation after approval by the Board;

(b) regularly reviewing the operational performance and strategic direction of the Group's businesses;

(c) identifying and executing new business development opportunities besides the existing business;

(d) implementing and compliance with the laws, regulations, listing rules, Bye-Laws, internal regulations applicable to the Group;

(e) regularly reviewing the targets and strategies of the Group considering the responsibilities of the Group towards the shareholders, customers, employees and other stakeholders;

(f) setting the execution plan for achieving specific objectives after the approval by the Board;

(g) utilising the advanced management philosophy, continuing to improve the operational management, suggesting effective management systems;

(h) reviewing the organisational structure of the Group regularly and proposing recommendations for appropriate change;

(i) changes relating to the Group's capital structure and significant changes to the Group's management and control structure;

(j) all matters likely by reason of public interest to be of a sensitive nature or affect the image or reputation of the proper governance of the Group, ethical conduct of business, recruitment, development and fair treatment of employees, community affairs, environmental matters, health and safety matters;

(k) all matters representing a major change of policy or involvement of a material nature in a new area of business;

(l) the principles of all internal control processes, including risk analysis and management processes, authority levels and treasury policies; and

(m) the provision of sufficient information to enable the Board to monitor performance.

# Audit and Risk Management Committee Report

The Board of Kencana Petroleum is pleased to present the Audit And Risk Management Report for the financial year ended 31 July 2011.

## TERMS OF REFERENCE

### Composition and Size

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

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

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

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

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

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

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

### Chairman

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

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

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

### Secretary

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

### Meetings

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

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

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

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

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

**Rights**

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

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

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

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

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

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

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

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

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

**Duties and Responsibilities**

The duties and responsibilities of the ARMC shall be:

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

- changes in or implementation of accounting policies and practices;
- major judgmental areas;
- significant and unusual events;
- the going concern assumption;
- compliance with approved financial reporting standards and other legal requirements; and
- compliance with Bursa Securities' requirements;

(b) to review with the external auditors:

- their audit plan;
- evaluation of the system of internal controls and management information systems;
- problems and reservation arising from their audits; and
- audit report;

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

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

(e) to perform the following in relation to the internal audit function:

- review the adequacy of the scope, functions, competency, budget and resources, 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;
- 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/her reasons for resigning;

(f) to consider the nomination/ appointment of external auditors, co-source internal audit function (if any), the audit fee and any questions of resignation or dismissal;

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

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

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

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

(k) to ensure timely submission of financial statement by Management;

(l) to assess whether financial statements present a true and fair view of the Group's financial position and performance and comply with regulatory requirements;

(m) to seek continuing professional education to keep abreast of developments not only in the area of financial reporting but also in regulatory compliance, technology, business risk and the implications of significant changes that may affect the Group; and

(n) to discuss with the external auditor before the audit commences, the nature and scope of the audit, and ensure co-ordination where more than one audit firm is involved.

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

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

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

- upholding a culture that emphasizes integrity;
- embedding a holistic risk management framework in all aspects of the Group's activities;
- applying the Board's acceptable "risk appetite", i.e. the extent of risk the Board is prepared to accept in achieving the Company's objective;
- evaluating the principal risks and ensuring these risks are appropriately communicated to Management;

- establishing in general, the risk management and control policies for the business;
- conceiving and adopting a befitting scheme of delegation of Board responsibilities to committees;
- ensuring timely and regular receipt of reports from Management of principal risks and that appropriate follow-up measures are implemented on timely basis; and
- adopting risk management as part of the Board's own decision-making culture.

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

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

**Internal Audit Function**

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

The internal audit function provides an objective independent assurance of the Group's internal control system and advice on the effectiveness of the Group's businesses and operations. The Group recognises that it is the management's responsibility to analyse risks and to devise and implement effective systems of internal control.

The fulfillment of the above objective is achieved by providing reasonable assurance through an effective and efficient programme of independent review across the Group to the management and to the Board on an on-going basis. This includes, but not limited to:

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

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

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

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

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

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

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

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

The cost incurred for the internal audit function of the Group in respect of the financial year ended 31 July 2011 was approximately RM384,000.

**Membership And Attendance At Meeting**

The current composition of the ARMC is as follows:

**Name of ARMC Members**

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

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

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

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

There were six (6) meetings held during the financial year 31 July 2011 and the details of attendance are as follows:

| Name of ARMC Members | No. of attendance and meetings |
|---|---|
| Mohd Adzahar bin Abdul Wahid | 6/6 |
| Tan Sri Nik Mohamed bin Nik Yaacob | 6/6 |
| Syed Zaid bin Syed Jaffar Albar | 6/6 |
| Tunku Dato' Mahmood Fawzy bin Tunku Muhiyiddin | 5/5 |

**Summary Of Activities Of The ARMC**

The ARMC carried out its duties as set out in the Terms of Reference. The 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, internal auditors (co-source) and their audit fees;
2. Reviewed and discussed with the external auditors and internal 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 internal 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, management response and corrective actions taken by the Management for the Group and the Company;
6. Reviewed the external auditor's management letter and management's response;
7. Reviewed the quarterly and annual financial reports of the Group and the Company prior to submission to the Board for consideration and approval;
8. Reviewed and verified that the allocation of options pursuant to the Company's Employees' Share Option Scheme is in compliance with the criteria for allocation of options as disclosed to employees of the Company; and
9. Reviewed and verified the related party transactions.

# Additional Compliance Information

**1. Status of utilisation of proceeds raised from corporate proposals**

During the financial year 2010, the Company undertook Renounceable Rights Issue and raised approximately RM182.08 million. The proceeds of RM182.08 million have been fully utilised during the financial year 2011 as follows:

| No. | Purpose | Utilisation (RM'000) |
|---|---|---|
| (i) | Repayment of bank borrowings | 91,294 |
| (ii) | Capital expenditure | 59,867 |
| (iii) | Acquisition of companies from Mermaid Drilling (Singapore) Pte Ltd (including incidental expenses) | 13,605 |
| (iv) | Working capital | 13,537 |
| (v) | Expenses for corporate exercises | 3,779 |
| | **Total** | **182,082** |

During the financial year 2011, the Company undertook Private Placement and raised approximately RM396.74 million. The status of the utilisation of proceeds as at 31 October 2011 is set out below:

| No. | Purpose | Utilisation (RM'000) |
|---|---|---|
| (i) | Expenses for corporate exercises | 10,091 |
| (ii) | Capital expenditure | 32,258 |
| (iii) | Working capital | 55,484 |
| (iv) | Repayment of bank borrowings | 42,300 |
| | **Total** | **140,133** |

**2. Share buybacks**

The Company did not enter into any share buyback transactions during the financial year ended 31 July 2011.

**3. Options, warrants or convertible securities**

The Company did not issue any options, warrants or convertible securities during the financial year ended 31 July 2011 other than the granting of options under the Employees' Share Option Scheme ("ESOS") as disclosed in Note 14 to the Financial Statements.

**4. Depository Receipt Programme**

The Company did not sponsor any depository receipt programme during the financial year ended 31 July 2011.

**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 2011.

**6. Non-audit fees**

The amount of non-audit fees paid to the external auditors during the financial year ended 31 July 2011 was RM290,000.

**7. Variation in results**

There were no material variations between the unaudited results previously announced and the audited results for the financial year ended 31 July 2011.

**8. Profit guarantee**

The Company did not provide any profit guarantee during the financial year ended 31 July 2011.

**9. Material contracts**

Saved for those disclosed as Related Party Transactions in Note 31 to the Financial Statements, there were no other material contracts entered into by the Company and/or its subsidiaries during the financial year ended 31 July 2011, which involve the interest of Directors and major shareholders.

**10. Revaluation policy**

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

**11. Recurrent Related Party Transaction ("RRPT")**

The aggregate value transacted for the period from 14 December 2010 to 31 October 2011 is as follows:

| Transacting Parties | Related Parties | Nature of Transactions | Aggregate Value (RM'000) |
|---|---|---|---|
| Kencana Petroleum Berhad Group and Kencana Capital Assets Sdn Bhd | Dato' Mokhzani bin Mahathir, Yeow Kheng Chew and Khasera Baru Sdn Bhd | Rental of office | 5,788 |

# Statement on Internal Control

## BOARD RESPONSIBILITIES

The Board of Directors ("The Board") and management acknowledge the responsibility for maintaining a sound system of internal control and for reviewing its adequacy and integrity. As such, the Board and management are committed to develop and improve on the current systems of internal control 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 misstatements or losses.

During the financial year under review, the Board recognises several areas of improvement in the internal control as highlighted by the internal auditors.

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

The Group has in place an on-going process for identifying, evaluating, monitoring and managing significant risks faced by the Group during the year.

The Board is responsible for the identification and evaluation of significant risks 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 risks 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 systems through reviews of reports it receives from the internal audit function.

(g) Continuance of Group Risk Management Steering Committee comprising senior management of the Group which has the following responsibilities:

   I. Coordinate, monitor, review and endorse the activities and programmes of risk management;

   II. Review risk management issues, documents, policies/ procedures submitted by risk officers before recommend for approval;

   III. Ensure infrastructure, resources and systems are adequate and 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; and

   VI. Review the risk assessment/analysis of projects and proposals that are of significant interest to the Group (potential, existing and new projects).

(h) The Group's internal audit function is co-sourced by its' internal audit (in-house) and Ernst & Young. The description of the activities of the internal audit function can be found in Audit and Risk Management Committee Report included in this Annual Report.

# Statement on Directors' Responsibility

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

In preparing the financial statements, the Directors have:

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

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

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

# FINANCIAL STATEMENTS

# Directors' Report
## *For Year Ended 31 July 2011*

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 2011.

**PRINCIPAL ACTIVITIES**

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

**RESULTS**

| | Group RM'000 | Company RM'000 |
|---|---|---|
| Profit/(Loss) for the year attributable to: | | |
| Owners of the Company | 223,102 | (9,660) |
| Non-controlling interests | 76 | – |
| | 223,178 | (9,660) |

**RESERVES AND PROVISIONS**

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

**DIVIDENDS**

Since the end of the previous financial year, the Company paid a first and final single tier dividend of 5.00% per ordinary share of RM0.10 each totalling approximately RM8,335,000 in respect of the year ended 31 July 2010 on 18 February 2011.

The Directors do not recommend any dividend to be paid for the financial year under review.

**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
Tunku Dato' Mahmood Fawzy bin Tunku Muhiyiddin

## 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 1.8.2010** | **Acquired** | **Disposed** | **At 31.7.2011** |
| *Shareholdings in which Directors have direct interest* | | | | |
| The Company | | | | |
| Dato' Mokhzani bin Mahathir | 7,553,000 | – | – | 7,553,000 |
| Chong Hin Loon | 95,477,300 | – | – | 95,477,300 |
| Yeow Kheng Chew | 13,850,200 | – | – | 13,850,200 |
| Cher Lee Kiat - own | 11,815,170 | 3,669,900 | (500,000) | 14,985,070 |
| - others * | 6,695,300 | – | – | 6,695,300 |
| Azmi bin Ismail | 455,000 | – | – | 455,000 |
| Syed Zaid Bin Syed Jaffar Albar | – | 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 | | | |
|---|---|---|---|---|
| | **At 1.8.2010** | **Acquired** | **Disposed** | **At 31.7.2011** |
| *Shareholdings in which Directors have indirect interest* | | | | |
| The Company | | | | |
| Dato' Mokhzani bin Mahathir | 649,337,813 | – | (16,642,080) | 632,695,733 |
| Cher Lee Kiat | 9,165,232 | 16,642,080 | (25,707,100) | 100,212 |

By virtue of Khasera Baru Sdn. Bhd. owning 632,695,733 shares, representing 31.83% 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 100,212 shares, representing 0.01% 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 1.8.2010 | Acquired | Disposed | At 31.7.2011 |
| Kencana Steelworks Sdn. Bhd. | | | | |
| - Dato' Mokhzani bin Mahathir | 1,000 | – | – | 1,000* |
| Teras-Kencana Ventures Sdn. Bhd. | | | | |
| - Dato' Mokhzani bin Mahathir | 189,000 | – | – | 189,000 |

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

None of the other Directors holding office at 31 July 2011 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 2011 have any entitlement under the Employees' Share Option Scheme ("ESOS") of the Company during the financial year.

**DIRECTORS' BENEFITS**

Since the end of the previous financial year, no Director of the Company has received nor become entitled to receive any benefit (other than a benefit included in the aggregate amount of emoluments received or due and receivable by the Directors as shown in the financial statements of the Company or the fixed salary of a full time employee of the Company or of related companies) by reason of a contract made by the Company or a related corporation with the Director or with a firm of which the Director is a member, or with a company in which the Director has a substantial financial interest, other than the related party transactions as disclosed in the Note 31 to the financial statements.

There were no arrangements during and at the end of the financial year which had the object of enabling Directors of the Company to acquire benefits by means of the acquisition of shares in or debentures of the Company or any other body corporate.

**ISSUE OF SHARES AND DEBENTURES**

Increase in authorised share capital

On 24 June 2011, the Company increased its authorised share capital via the creation of 1,000,000,000 ordinary shares of RM0.10 each in the Company resulting in an enlarged authorised share capital of RM300,000,000, comprising 3,000,000,000 ordinary shares of RM0.10 each.

Private placement

On 7 February 2011, the Company increased its issued and paid up share capital through the private placement of 166,698,000 new ordinary shares of RM0.10 each ("placement shares") at an issue price of RM2.38 per placement share to eligible investors.

## ISSUE OF SHARES AND DEBENTURES (CONTINUED)

Acquisition of Allied Marine & Equipment Sdn. Bhd. and its subsidiaries

On 13 July 2011 the Company increased its issued and paid up share capital through the issuance 149,253,731 new ordinary shares of RM0.10 each to satisfy the purchase consideration of RM400.0 million for the acquisition of 100% equity interest in Allied Marine & Equipment Sdn. Bhd. at an issue price of RM2.68 per ordinary share.

Exercise of employees' share options ("ESOS")

During the financial year ended 31 July 2011, the Company issued:

(a) 1,704,855 new ordinary shares of RM0.10 each for cash arising from the exercise of ESOS at an exercise price of RM0.81 per ordinary share;

(b) 10,395,400 new ordinary shares of RM0.10 each for cash arising from the exercise of ESOS at an exercise price of RM0.84 per ordinary share;

(c) 66,857 new ordinary shares of RM0.10 each for cash arising from the exercise of ESOS at an exercise price of RM0.96 per ordinary share;

(d) 500,000 new ordinary shares of RM0.10 each for cash arising from the exercise of ESOS at an exercise price of RM1.27 per ordinary share;

(e) 810,714 new ordinary shares of RM0.10 each for cash arising from the exercise of ESOS at an exercise price of RM1.30 per ordinary share;

(f) 110,000 new ordinary shares of RM0.10 each for cash arising from the exercise of ESOS at an exercise price of RM1.36 per ordinary share; and

(g) 150,000 new ordinary shares of RM0.10 each for cash arising from the exercise of ESOS at an exercise price of RM1.38 per ordinary share.

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 2011, are disclosed in Note 14 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.

**OPTIONS GRANTED OVER UNISSUED SHARES (CONTINUED)**

The main features of the ESOS Scheme ("the Scheme") are as follows:

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

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

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

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

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

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

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

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

## OPTIONS GRANTED OVER UNISSUED SHARES (CONTINUED)

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

| | | Number of options over ordinary shares of RM0.10 each | | | |
|---|---|---|---|---|---|
| Date of offer | Exercise price | At 1.8.2010 | Granted | Lapsed/ Exercised | At 31.7.2011 |
| 10.4.2008 | RM1.40/RM0.84* | 10,986,292 | – | (10,408,771) | 577,521 |
| 17.9.2008 | RM1.35/RM0.81* | 1,704,855 | – | (1,704,855) | – |
| 21.5.2009 | RM1.60/RM0.96* | 66,857 | – | (66,857) | – |
| 13.2.2010 | RM1.27 | 4,171,000 | – | (500,000) | 3,671,000 |
| 15.6.2010 | RM1.30 | 880,714 | – | (810,714) | 70,000 |
| 15.9.2010 | RM1.38 | – | 150,000 | (150,000) | – |
| 1.10.2010 | RM1.36 | – | 200,000 | (110,000) | 90,000 |
| 6.5.2011 | RM2.41 | – | 1,000,000 | – | 1,000,000 |

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

The Company has been granted an exemption by the Companies Commission of Malaysia from having to disclose in this report the name of persons to whom options have been granted during the duration of the ESOS Scheme and details of their holdings as required by Section 169(11) of the Companies Act, 1965, except for information on employees who were granted options of 70,000 ordinary shares of RM0.10 each and above under the ESOS Scheme and remained unexercised as at 31 July 2011.

The names of the option holders who were granted options of 70,000 ordinary shares of RM0.10 each and above during the duration of the ESOS Scheme and remained unexercised as at 31 July 2011 are set out below:

| | ESOS grant date | ESOS exercise price RM | Number of outstanding options '000 |
|---|---|---|---|
| Syed Ghazali bin Syed Hassan | 10.4.2008 | 0.84 | 125 |
| Murali a/l K.L Maniam Nair | 10.4.2008 | 0.84 | 84 |
| Norlina bt Md Yusof | 10.4.2008 | 0.84 | 84 |
| Abdul Rahim bin Awang | 13.2.2010 | 1.27 | 2,000 |
| Stephen Tam Kah Yen | 13.2.2010 | 1.27 | 1,671 |
| Kevin John Pereira | 15.6.2010 | 1.30 | 70 |
| Foo Kee Eng | 6.5.2011 | 2.41 | 1,000 |

## OTHER STATUTORY INFORMATION

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

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

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

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

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

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

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

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

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

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

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

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

In the opinion of the Directors, the financial performance of the Group and of the Company for the financial year ended 31 July 2011 have not been substantially affected by any item, transaction or event of a material and unusual nature nor has any such item, transaction or event occurred in the interval between the end of that financial year and the date of this report.

## SIGNIFICANT EVENTS

The significant events are disclosed in Note 33 to the financial statements.

## SUBSEQUENT EVENTS

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

## AUDITORS

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

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

**Dato' Mokhzani bin Mahathir** **Chong Hin Loon**

Kuala Lumpur,

Date: 28 October 2011

# Statements of Financial Position

## As At 31 July 2011

| | Note | Group 31.7.2011 RM'000 | Group 31.7.2010 RM'000 restated | Group 1.8.2009 RM'000 restated | Company 31.7.2011 RM'000 | Company 31.7.2010 RM'000 |
|---|---|---|---|---|---|---|
| **Assets** | | | | | | |
| Property, plant and equipment | 3 | **1,504,004** | 485,891 | 309,171 | **13,969** | 2,160 |
| Intangible assets | 4 | **433,063** | 37,335 | 36,166 | **–** | – |
| Investments in subsidiaries | 5 | **–** | – | – | **847,846** | 125,409 |
| Investments in associates | 6 | **2,137** | 53,857 | 56,213 | **–** | – |
| Investments in jointly controlled entities | 7 | **6** | 4 | 9 | **–** | – |
| Investment in preference shares | 8 | **–** | 1,352 | 4,187 | **–** | – |
| Trade and other receivables | 10 | **–** | 300 | – | **42,075** | 306,472 |
| Deferred tax assets | 16 | **2,113** | 74 | – | **–** | – |
| **Total non-current assets** | | **1,941,323** | 578,813 | 405,746 | **903,890** | 434,041 |
| Inventories | 9 | **24,690** | 27,311 | 28,293 | **–** | – |
| Trade and other receivables | 10 | **472,487** | 531,465 | 253,520 | **106,811** | 19,066 |
| Prepayments and other assets | | **10,066** | 5,581 | 2,235 | **2,374** | 1,201 |
| Current tax assets | | **11,308** | 5,763 | 1,254 | **28** | 26 |
| Cash and cash equivalents | 11 | **827,810** | 222,390 | 253,893 | **288,511** | 27,080 |
| Assets classified as held for sale | 12 | **13,472** | 3,773 | – | **–** | – |
| **Total current assets** | | **1,359,833** | 796,283 | 539,195 | **397,724** | 47,373 |
| **Total assets** | | **3,301,156** | 1,375,096 | 944,941 | **1,301,614** | 481,414 |
| **Equity** | | | | | | |
| Share capital | 13 | **198,777** | 165,797 | 90,296 | **198,777** | 165,797 |
| Reserves | 13 | **954,727** | 200,105 | 82,653 | **974,910** | 200,105 |
| Retained profits/(Accumulated losses) | | **602,350** | 387,588 | 255,968 | **(271)** | 17,721 |
| **Total equity attributable to owners of the Company** | | **1,755,854** | 753,490 | 428,917 | **1,173,416** | 383,623 |
| **Non-controlling interests** | | **587** | 1,895 | – | **–** | – |
| **Total equity** | | **1,756,441** | 755,385 | 428,917 | **1,173,416** | 383,623 |

| | Note | Group 31.7.2011 RM'000 | Group 31.7.2010 RM'000 restated | Group 1.8.2009 RM'000 restated | Company 31.7.2011 RM'000 | Company 31.7.2010 RM'000 |
|---|---|---|---|---|---|---|
| **Liabilities** | | | | | | |
| Loans and borrowings | 15 | **554,219** | 43,033 | 155,988 | **43,338** | 350 |
| Deferred tax liabilities | 16 | **44,950** | 26,414 | 24,847 | **–** | – |
| **Total non-current liabilities** | | **599,169** | 69,447 | 180,835 | **43,338** | 350 |
| Loans and borrowings | 15 | **334,556** | 182,843 | 56,780 | **33,201** | 60,100 |
| Trade and other payables | 17 | **599,140** | 362,685 | 276,162 | **51,659** | 37,341 |
| Tax liabilities | | **7,502** | 4,736 | 2,247 | **–** | – |
| Liabilities classified as held for sale | 12 | **4,348** | – | – | **–** | – |
| **Total current liabilities** | | **945,546** | 550,264 | 335,189 | **84,860** | 97,441 |
| **Total liabilities** | | **1,544,715** | 619,711 | 516,024 | **128,198** | 97,791 |
| **Total equity and liabilities** | | **3,301,156** | 1,375,096 | 944,941 | **1,301,614** | 481,414 |

The notes on pages 88 to 164 are an integral part of these financial statements.

# Statements of Comprehensive Income
## For Year Ended 31 July 2011

| | Note | Group 2011 RM'000 | Group 2010 RM'000 | Company 2011 RM'000 | Company 2010 RM'000 |
|---|---|---|---|---|---|
| Revenue | 18 | **1,492,649** | 1,090,090 | **11,498** | 31,220 |
| Costs of services rendered | 18 | **(1,122,930)** | (850,293) | **–** | – |
| **Gross profit** | | **369,719** | 239,797 | **11,498** | 31,220 |
| Other income | | **27,224** | 11,732 | **27** | – |
| Administrative expenses | | **(110,377)** | (72,537) | **(24,010)** | (10,075) |
| **Results from operating activities** | | **286,566** | 178,992 | **(12,485)** | 21,145 |
| Finance income | 21 | **9,342** | 5,154 | **5,439** | 793 |
| Finance costs | 22 | **(23,081)** | (11,476) | **(2,614)** | (2,093) |
| **Operating profit/(loss)** | 19 | **272,827** | 172,670 | **(9,660)** | 19,845 |
| Share of profit/(loss) after tax of associates | | **128** | (845) | **–** | – |
| Share of profit/(loss) after tax of jointly controlled entities | | **2** | (5) | **–** | – |
| **Profit/(Loss) before tax** | | **272,957** | 171,820 | **(9,660)** | 19,845 |
| Tax expense | 23 | **(49,779)** | (35,622) | **–** | (5,637) |
| **Profit/(Loss) for the year** | | **223,178** | 136,198 | **(9,660)** | 14,208 |
| **Other comprehensive expense, net of tax** | | | | | |
| Foreign currency translation differences for foreign operations | | **(20,183)** | – | **–** | – |
| **Total other comprehensive expense for the year** | | **(20,183)** | – | **–** | – |
| **Total comprehensive income/(expense) for the year** | | **202,995** | 136,198 | **(9,660)** | 14,208 |
| **Profit/(Loss) attributable to:** | | | | | |
| Owners of the Company | | **223,102** | 136,166 | **(9,660)** | 14,208 |
| Non-controlling interests | | **76** | 32 | **–** | – |
| **Profit/(Loss) for the year** | | **223,178** | 136,198 | **(9,660)** | 14,208 |
| **Total comprehensive income/(expense) attributable to:** | | | | | |
| Owners of the Company | | **202,919** | 136,166 | **(9,660)** | 14,208 |
| Non-controlling interests | | **76** | 32 | **–** | – |
| **Total comprehensive income/(expense) for the year** | | **202,995** | 136,198 | **(9,660)** | 14,208 |
| **Basic earnings per ordinary share (sen)** | 25 | **12.71** | 10.72 | | |
| **Diluted earnings per ordinary share (sen)** | 25 | **12.69** | 10.66 | | |

The notes on pages 88 to 164 are an integral part of these financial statements.

# Consolidated Statement of Changes in Equity
## *For Year Ended 31 July 2011*

| Group | Share capital RM'000 | Share premium RM'000 | Share option reserve RM'000 | Translation reserve RM'000 | Retained profits RM'000 | Total RM'000 | Non-controlling interests RM'000 | Total equity RM'000 |
|---|---|---|---|---|---|---|---|---|
| | ← Non-distributable | | | → | Distributable | | | |
| At 1 August 2009 | 90,296 | 79,682 | 2,971 | – | 255,968 | 428,917 | – | 428,917 |
| Profit for the year/ Total comprehensive income for the year | – | – | – | – | 136,166 | 136,166 | 32 | 136,198 |
| Renounceable rights issue | 36,416 | 145,665 | – | – | – | 182,081 | – | 182,081 |
| Bonus issue | 38,237 | (38,237) | – | – | – | – | – | – |
| Share issue expenses | - | (2,758) | – | – | – | (2,758) | – | (2,758) |
| Share options exercised | 848 | 10,398 | – | – | – | 11,246 | – | 11,246 |
| Share-based payments | – | – | 2,388 | – | – | 2,388 | – | 2,388 |
| Share options lapsed | – | – | (4) | – | 4 | – | – | – |
| Transfer to share premium for share options exercised | – | 2,794 | (2,794) | – | – | – | – | – |
| Dividend paid (Note 24) | – | – | – | – | (4,550) | (4,550) | – | (4,550) |
| Issuance of preference shares of a subsidiary | – | – | – | – | – | – | 1,863 | 1,863 |
| **At 31 July 2010/ 1 August 2010** | 165,797 | 197,544 | 2,561 | – | 387,588 | 753,490 | 1,895 | 755,385 |
| Profit for the year | – | – | – | – | 223,102 | 223,102 | 76 | 223,178 |
| Total other comprehensive expense for the year | – | – | – | (20,183) | – | (20,183) | – | (20,183) |
| Total comprehensive income for the year | – | – | – | (20,183) | 223,102 | 202,919 | 76 | 202,995 |
| Shares issued pursuant to private placement | 16,670 | 380,071 | – | – | – | 396,741 | – | 396,741 |
| Shares issued pursuant to the acquisition of a subsidiary | 14,925 | 385,075 | – | – | – | 400,000 | – | 400,000 |
| Share options exercised | 1,385 | 10,929 | – | – | – | 12,314 | – | 12,314 |
| Share-based payments | – | – | 2,709 | – | – | 2,709 | – | 2,709 |
| Share options lapsed | – | – | (3) | – | 3 | – | – | – |
| Transfer to share premium for share options exercised | – | 3,845 | (3,845) | – | – | – | – | – |
| Share issue expenses | – | (3,976) | – | – | – | (3,976) | – | (3,976) |
| Acquisition of non-controlling interest in a subsidiary | – | – | – | – | (8) | (8) | (32) | (40) |
| Disposal of preference shares of a subsidiary | – | – | – | – | – | – | (1,352) | (1,352) |
| Dividend paid (Note 24) | – | – | – | – | (8,335) | (8,335) | – | (8,335) |
| **At 31 July 2011** | **198,777** | **973,488** | **1,422** | **(20,183)** | **602,350** | **1,755,854** | **587** | **1,756,441** |
| | Note 13 | Note 13 | Note 13 | Note 13 | | | | |

The notes on pages 88 to 164 are an integral part of these financial statements.

# Statement of Changes in Equity
## For Year Ended 31 July 2011

| Company | ← Non-distributable | | → | Distributable | |
|---|---|---|---|---|---|
| | Share capital RM'000 | Share premium RM'000 | Share option reserve RM'000 | Retained profits RM'000 | Total equity RM'000 |
| **At 1 August 2009** | 90,296 | 79,682 | 2,971 | 8,059 | 181,008 |
| Profit for the year/Total comprehensive income for the year | – | – | – | 14,208 | 14,208 |
| Renounceable rights issue | 36,416 | 145,665 | – | – | 182,081 |
| Bonus issue | 38,237 | (38,237) | – | – | – |
| Shares issue expenses | – | (2,758) | – | – | (2,758) |
| Share options exercised | 848 | 10,398 | – | – | 11,246 |
| Share-based payments | – | – | 2,388 | – | 2,388 |
| Share options lapsed | – | – | (4) | 4 | – |
| Transfer to share premium for share options exercised | – | 2,794 | (2,794) | – | – |
| Dividend paid (Note 24) | – | – | – | (4,550) | (4,550) |
| **At 31 July 2010/1 August 2010** | 165,797 | 197,544 | 2,561 | 17,721 | 383,623 |
| Loss for the year/Total comprehensive expense for the year | – | – | – | (9,660) | (9,660) |
| Shares issued pursuant to private placement | 16,670 | 380,071 | – | – | 396,741 |
| Shares issued pursuant to the acquisition of a subsidiary | 14,925 | 385,075 | – | – | 400,000 |
| Share options exercised | 1,385 | 10,929 | – | – | 12,314 |
| Share-based payments | – | – | 2,709 | – | 2,709 |
| Share options lapsed | – | – | (3) | 3 | – |
| Transfer to share premium for share options exercised | – | 3,845 | (3,845) | – | – |
| Shares issue expenses | – | (3,976) | – | – | (3,976) |
| Dividend paid (Note 24) | – | – | – | (8,335) | (8,335) |
| **At 31 July 2011** | **198,777** | **973,488** | **1,422** | **(271)** | **1,173,416** |
| | Note 13 | Note 13 | Note 13 | | |

The notes on pages 88 to 164 are an integral part of these financial statements.

# Statements of Cash Flows

## For Year Ended 31 July 2011

| | Group | | Company | |
|---|---|---|---|---|
| | 2011 RM'000 | 2010 RM'000 | 2011 RM'000 | 2010 RM'000 |
| **Cash flows from operating activities** | | | | |
| Profit/(Loss) before tax | **272,957** | 171,820 | **(9,660)** | 19,845 |
| Adjustments for: | | | | |
| Depreciation of property, plant and equipment | **66,029** | 23,351 | **1,622** | 227 |
| Dividend income – subsidiaries | **–** | – | **–** | (24,637) |
| Finance costs | **23,081** | 11,476 | **2,614** | 2,093 |
| Gain on disposal of property, plant and equipment | **(344)** | (2,557) | **–** | – |
| Gain on disposal of assets classified as held for sale | **(207)** | – | **–** | – |
| Gain on disposal of redeemable preference shares | **–** | (2,274) | **–** | – |
| Gain on bargain purchase of a subsidiary | **(12,901)** | – | **–** | – |
| Gain on deemed disposal of associate | **(496)** | – | **–** | – |
| Interest income | **(9,342)** | (5,154) | **(5,439)** | (793) |
| Impairment loss on goodwill of a subsidiary | **84** | – | **–** | – |
| Loss on disposal of property, plant and equipment | **1** | 114 | **1** | 76 |
| Loss on disposal of associate | **–** | 181 | **–** | – |
| Net unrealised loss on foreign exchange | **1,592** | 948 | **–** | – |
| Net impairment loss in prepayment and other assets | **–** | 19 | **–** | – |
| Property, plant and equipment written off | **415** | 393 | **29** | 131 |
| Share-based payments | **2,709** | 2,388 | **674** | 398 |
| Share of (profit)/loss after tax of associates | **(128)** | 845 | **–** | – |
| Share of (profit)/loss after tax of jointly controlled entities | **(2)** | 5 | **–** | – |
| **Operating profit/(loss) before changes in working capital** | **343,448** | 201,555 | **(10,159)** | (2,660) |
| Inventories | **3,795** | 982 | **–** | – |
| Trade and other receivables and prepayments and other assets | **136,210** | (175,686) | **(15,650)** | 2,055 |
| Trade and other payables | **(154,611)** | 84,846 | **14,318** | 36,504 |
| **Cash generated from/(used in) operations** | **328,842** | 111,697 | **(11,491)** | 35,899 |
| Income taxes paid | **(39,578)** | (36,149) | **(2)** | (2,679) |
| Interest paid | **(23,081)** | (11,476) | **(2,614)** | (2,093) |
| **Net cash generated from/(used in) operating activities** | **266,183** | 64,072 | **(14,107)** | 31,127 |

# *Statements of Cash Flows*
## *For Year Ended 31 July 2011 (continued)*

| | Group | | Company | |
|---|---|---|---|---|
| | **2011** | 2010 | **2011** | 2010 |
| | **RM'000** | RM'000 | **RM'000** | RM'000 |
| **Cash flows from investing activities** | | | | |
| Acquisition of subsidiaries, net of cash acquired (Note 32) | **(20,859)** | (171) | **(93,402)** | (10,390) |
| Acquisition of property, plant and equipment **(i)** | **(279,571)** | (203,580) | **(11,956)** | (1,500) |
| Acquisition of non-controlling interest | **(40)** | – | **–** | – |
| Deposits paid for acquisition of shares in an associate | **–** | (101,129) | **–** | – |
| Dividends received from subsidiaries | **–** | – | **19,000** | 8,000 |
| Expenditure on oil and gas properties | **(98,910)** | – | **–** | – |
| Interest received | **9,342** | 5,154 | **5,439** | 793 |
| Investment in preference shares | **–** | (2,310) | **–** | – |
| Issuance of preference shares of a subsidiary to minority interest | **–** | 1,863 | **–** | – |
| Proceeds from disposal of property, plant and equipment | **2,837** | 6,411 | **1** | 345 |
| Proceeds from disposal of assets classified as held for sale | **3,980** | – | **–** | – |
| Proceeds from disposal of preference shares | **–** | 3,637 | **–** | – |
| Proceeds from disposal of other investments | **–** | 48 | **–** | – |
| **Net cash used in investing activities** | **(383,221)** | (290,077) | **(80,918)** | (2,752) |
| **Cash flows from financing activities** | | | | |
| Advances to subsidiaries | **–** | – | **(54,871)** | (228,262) |
| Dividends paid to shareholders | **(8,335)** | (4,550) | **(8,335)** | (4,550) |
| Increase in pledged deposits placed with licensed banks | **(235)** | (1,440) | **–** | – |
| Net proceeds from borrowings | **230,680** | 6,649 | **14,583** | 29,603 |
| Proceeds from issuance of rights shares | **–** | 182,081 | **–** | 182,081 |
| Proceeds from the exercise of share options | **12,314** | 11,246 | **12,314** | 11,246 |
| Proceeds from private placement | **396,741** | | **396,741** | – |
| Share issue expenses | **(3,976)** | (2,758) | **(3,976)** | (2,758) |
| **Net cash generated from/(used in) financing activities** | **627,189** | 191,228 | **356,456** | (12,640) |

| | Group | | Company | |
|---|---|---|---|---|
| | 2011 | 2010 | 2011 | 2010 |
| | RM'000 | RM'000 | RM'000 | RM'000 |
| **Net increase/(decrease) in cash and cash equivalents** | **510,151** | (34,777) | **261,431** | 15,735 |
| **Cash and cash equivalents at 1 August** | **194,744** | 229,521 | **27,080** | 11,345 |
| **Cash and cash equivalents at 31 July (ii)** | **704,895** | 194,744 | **288,511** | 27,080 |

***(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 RM311,280,000 (2010 – RM208,205,000) and RM13,462,000 (2010 - RM2,000,000) respectively, of which RM31,709,000 (2010 - RM4,625,000) and RM1,506,000 (2010 - RM500,000) respectively was acquired by means of hire purchases.

***(ii) Cash and cash equivalents***

Cash and cash equivalents included in the statements of cash flows comprise the following statement of financial position amounts:

| | Group | | Company | |
|---|---|---|---|---|
| | 2011 | 2010 | 2011 | 2010 |
| | RM'000 | RM'000 | RM'000 | RM'000 |
| Cash and bank balances (Note 11) | **140,242** | 149,604 | **9,311** | 16,835 |
| Deposits placed with licensed banks (Note 11) | **687,568** | 72,786 | **279,200** | 10,245 |
| Bank overdrafts (Note 15) | **(97,047)** | (2,013) | **–** | – |
| | **730,763** | 220,377 | **288,511** | 27,080 |
| Less: Deposits pledged (Note 11) | **(25,868)** | (25,633) | **–** | – |
| | **704,895** | 194,744 | **288,511** | 27,080 |

The notes on pages 88 to 164 are an integral part of these financial statements.

# Notes to the Financial Statements

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

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

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

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

The consolidated financial statements as at and for the financial year ended 31 July 2011 comprise the Company and its subsidiaries (together referred to as the Group) and the Group's interest in associates, jointly controlled entities and jointly controlled assets and operations. The financial statements of the Group as at and for the financial year ended 31 July 2011 do not include other entities.

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

The financial statements were authorised for issue by the Board of Directors on 28 October 2011.

## 1. BASIS OF PREPARATION

### (a) Statement of compliance

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

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

## 1. BASIS OF PREPARATION (CONTINUED)

### (a) Statement of compliance (continued)

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

- Amendments to FRS 1, First-time Adoption of Financial Reporting Standards
  - Limited Exemption from Comparative FRS 7 Disclosures for First-time Adopters
  - Additional Exemptions for First-time Adopters
- Amendments to FRS 2, Group Cash-settled Share Based Payment Transactions
- Amendments to FRS 7, Financial Instruments: Disclosures – Improving Disclosures about Financial Instruments
- IC Interpretation 4, Determining whether an Arrangement contains a Lease
- IC Interpretation 18, Transfers of Assets from Customers
- Improvements to FRSs (2010)

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

- IC Interpretation 19, Extinguishing Financial Liabilities with Equity Instruments
- Amendments to IC Interpretation 14, Prepayments of a Minimum Funding Requirement

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

- FRS 124, Related Party Disclosures (revised)
- IC Interpretation 15, Agreements for the Construction of Real Estate

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

- from the annual period beginning 1 August 2011 for those standards, amendments and interpretations that will be effective for annual periods beginning on or after 1 January 2011 and 1 July 2011, except for IC Interpretation 18, IC Interpretation 19 and Amendments to IC Interpretation 14 which are not applicable to the Group and the Company; and

- from the annual period beginning 1 August 2012 for those standards, amendments and interpretations that will be effective for annual periods beginning on or after 1 January 2012, except for IC Interpretation 15 which are not applicable to the Group and the Company.

The initial application of a standard, an amendment or an interpretation, which will be applied prospectively or which requires extended disclosures, is not expected to have any financial impact to the current and prior periods financial statements upon their first adoption.

Following the announcement by the MASB on 1 August 2008, the Group and the Company's next set of financial statements will be prepared in accordance with International Financial Reporting Standards (IFRS) framework. The change of the financial reporting framework is not expected to have any significant impact on the financial position and performance of the Group and the Company.

## 1. BASIS OF PREPARATION (CONTINUED)

### (b) Basis of measurement

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

### (c) Functional and presentation currency

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

### (d) Use of estimates and judgements

The preparation of the financial statements in conformity with FRSs 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 estimates are revised and in any future periods affected.

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

- Note 2(d)(iii) – depreciation – assessment of residual value
- Note 2(p)(i) - recognition of revenue from construction contracts
- Note 4 - impairment test of goodwill
- Note 14 - share–based payments

## 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, other than those disclosed in the following notes:

- Note 2(a) – Basis of consolidation
- Note 2(c) – Financial instruments
- Note 2(e) – Leased assets
- Note 2(q) – Borrowing costs

## 2. SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

### (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.

Investments in subsidiaries are stated in the Company's statement of financial position at cost less impairment losses, unless the investment is classified as held for sale or distribution. The cost of investments includes transaction costs.

The accounting policies of subsidiaries are changed when necessary to align them with the policies adopted by the Group.

#### (ii) Accounting for business combinations

Business combinations are accounted for using the acquisition method from the acquisition date, which is the date on which control is transferred to the Group.

The Group has changed its accounting policy with respect to accounting for business combinations.

From 1 August 2010 the Group has applied FRS 3, Business Combinations (revised) in accounting for business combinations. The change in accounting policy has been applied prospectively in accordance with the transitional provisions provided by the standard and does not have impact on earnings per share.

**Acquisitions on or after 1 August 2010**
For acquisitions on or after 1 August 2010, the Group measures goodwill at the acquisition date as:

- the fair value of the consideration transferred; plus
- the recognised amount of any non-controlling interests in the acquiree; plus
- if the business combination is achieved in stages, the fair value of the existing equity interest in the acquiree; less
- the net recognised amount (generally fair value) of the identifiable assets acquired and liabilities assumed.

When the excess is negative, a bargain purchase gain is recognised immediately in profit or loss.

The consideration transferred does not include amounts related to the settlement of pre-existing relationships. Such amounts are generally recognised in profit or loss.

Costs related to the acquisition, other than those associated with the issue of debt or equity securities, that the Group incurs in connection with a business combination are expensed as incurred.

Any contingent consideration payable is recognised at fair value at the acquisition date. If the contingent consideration is classified as equity, it is not remeasured and settlement is accounted for within equity. Otherwise, subsequent changes to the fair value of the contingent consideration are recognised in profit or loss.

## 2. SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

### (a) Basis of consolidation (continued)

#### (ii) Accounting for business combinations (continued)

**Acquisitions between 1 January 2006 and 1 August 2010**

For acquisitions between 1 January 2006 and 1 August 2010, goodwill represents the excess of the cost of the acquisition over the Group's interest in the recognised amount (generally fair value) of the identifiable assets, liabilities and contingent liabilities of the acquiree. When the excess was negative, a bargain purchase gain was recognised immediately in profit or loss.

Transaction costs, other than those associated with the issue of debt or equity securities, that the Group incurred in connection with business combinations were capitalised as part of the cost of the acquisition.

**Acquisitions prior to 1 January 2006**

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.

#### (iii) Accounting for acquisitions of non-controlling interests

The Group treats all changes in ownership interest in a subsidiary that do not result in a loss of control as equity transactions between the Group and its non-controlling interest holders. Any difference between the Group's share of net assets before and after the change, and any consideration received or paid, is adjusted to or against Group reserves.

#### (iv) Loss of control

The Group applied FRS 127, Consolidated and Separate Financial Statements (revised) since the beginning of the reporting period in accordance with the transitional provisions provided by the standard and does not have impact on earnings per share. Upon the loss of control of a subsidiary, the Group derecognises the assets and liabilities of the subsidiary, any non-controlling interests and the other components of equity related to the subsidiary. Any surplus or deficit arising on the loss of control is recognised in profit or loss. If the Group retains any interest in the previous subsidiary, then such interest is measured at fair value at the date that control is lost. Subsequently it is accounted for as an equity accounted investee depending on the level of influence retained.

In the previous years, if the Group retained any interest in the previous subsidiary, such interest was measured at the carrying amount at the date that control was lost and this carrying amount would be regarded as cost on initial measurement of the investment.

## 2. SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

### (a) Basis of consolidation (continued)

#### (v) Associates

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

Investments in associates are accounted for in the consolidated financial statements using the equity method less any impairment losses, unless it is classified as held for sale or distribution. The cost of the investment includes transaction costs. The consolidated financial statements include the Group's share of the profit or loss and other comprehensive income of the equity accounted associates, after adjustments, if any, 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 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 measured in the Company's statement of financial position at cost less any impairment losses, unless the investment is classified as held for sale or distribution. The cost of the investment includes transaction costs.

#### (vi) 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. The consolidated financial statements include the Group's share of the profit or loss and other comprehensive income 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 statement of financial position at cost less impairment losses.

***Jointly-controlled operation and assets***

The interest of the Group in unincorporated joint ventures and jointly-controlled assets are brought to account by recognising in its financial statements the assets it controls and the liabilities that it incurs, and the expenses it incurs and its share of income that it earns from the sale of goods or services by the joint venture.

## 2. SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

### (a) Basis of consolidation (continued)

#### (vii) Transactions eliminated on consolidation

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

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

### (b) Foreign currency

#### (i) Foreign currency transactions

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

Monetary assets and liabilities denominated in foreign currencies at reporting period are retranslated to the functional currency at the exchange rate at that date.

Non-monetary assets and liabilities denominated in foreign currencies are not retranslated at the end of the reporting date except for those that are measured at fair value 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 profit or loss.

#### (ii) Operations denominated in functional currencies other than Ringgit Malaysia

The assets and liabilities of operations denominated in functional currencies other than RM, including goodwill and fair value adjustments arising on acquisition, are translated to RM at exchange rates at the end of the reporting period. The income and expenses of foreign operations are translated to RM at exchange rates at the dates of the transactions.

Foreign currency differences are recognised in other comprehensive income and accumulated in the foreign currency translation reserve ("FCTR"). However, if the operation is a non-wholly-owned subsidiary, then the relevant proportionate share of the translation difference is allocated to non controlling interests. When a foreign operation is disposed of such that control, significant influence or joint control is lost, the cumulative amount in the FCTR related to that foreign operation is reclassified to profit or loss as part of the profit or loss on disposal.

In the consolidated financial statements, when settlement of a monetary item receivable from or payable to a foreign operation is neither planned nor likely in the foreseeable future, foreign exchange gains and losses arising from such a monetary item are considered to form part of a net investment in a foreign operation and are recognised in other comprehensive income, and are presented in the FCTR within equity.

## 2. SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

### (c) Financial instruments

Arising from the adoption of FRS 139, Financial Instruments: Recognition and Measurement, with effect from 1 August 2010, financial instruments are categorised and measured using accounting policies as mentioned below. Before 1 August 2010, different accounting policies were applied. Significant changes to the accounting policies are discussed in Note 35.

#### (i) Initial recognition and measurement

A financial asset or a financial liability is recognised in the statement of financial position when, and only when, the Group or the Company becomes a party to the contractual provisions of the instrument.

A financial instrument is recognised initially, at its fair value plus, in the case of a financial instrument not at fair value through profit or loss, transaction costs that are directly attributable to the acquisition or issue of the financial instrument.

An embedded derivative is recognised separately from the host contract and accounted for as a derivative if, and only if, it is not closely related to the economic characteristics and risks of the host contract and the host contract is not categorised at fair value through profit or loss. The host contract, in the event an embedded derivative is recognised separately, is accounted for in accordance with policy applicable to the nature of the host contract.

#### (ii) Financial instrument categories and subsequent measurement

The Group and the Company categorise financial instruments as follows:

***Financial assets***

***Loans and receivables***

Loans and receivables category comprises debt instruments that are not quoted in an active market.

Financial assets categorised as loans and receivables are subsequently measured at amortised cost using the effective interest method.

***Available-for-sale financial assets***

Available-for-sale category comprises investment in equity and debt securities instruments that are not held for trading.

Investments in equity instruments that do not have a quoted market price in an active market and whose fair value cannot be reliably measured are measured at cost. Other financial assets categorised as available-for-sale are subsequently measured at their fair values with the gain or loss recognised in other comprehensive income, except for impairment losses, foreign exchange gains and losses arising from monetary items and gains and losses of hedged items attributable to hedge risks of fair value hedges which are recognised in profit or loss. On derecognition, the cumulative gain or loss recognised in other comprehensive income is reclassified from equity into profit or loss. Interest calculated for a debt instrument using the effective interest method is recognised in profit or loss.

All financial assets are subject to review for impairment (see note 2(l)(i)).

## 2. SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

### (c) Financial instruments (continued)

#### (ii) Financial instrument categories and subsequent measurement (continued)

***Financial liabilities***

All financial liabilities are subsequently measured at amortised cost.

#### (iii) Financial guarantee contracts

A financial guarantee contract is a contract that requires the issuer to make specified payments to reimburse the holder for a loss it incurs because a specified debtor fails to make payment when due in accordance with the original or modified terms of a debt instrument.

Financial guarantee contracts are classified as deferred income and are amortised to profit or loss using a straight-line method over the contractual period or, when there is no specified contractual period, recognised in profit or loss upon discharge of the guarantee. When settlement of a financial guarantee contract becomes probable, an estimate of the obligation is made. If the carrying value of the financial guarantee contract is lower than the obligation, the carrying value is adjusted to the obligation amount and accounted for as a provision.

#### (iv) Derecognition

A financial asset or part of it is derecognised when, and only when the contractual rights to the cash flows from the financial asset expire or the financial asset is transferred to another party without retaining control or substantially all risks and rewards of the asset. On derecognition of a financial asset, the difference between the carrying amount and the sum of the consideration received (including any new asset obtained less any new liability assumed) and any cumulative gain or loss that had been recognised in equity is recognised in profit or loss.

A financial liability or a part of it is derecognised when, and only when, the obligation specified in the contract is discharged or cancelled or expires. On derecognition of a financial liability, the difference between the carrying amount of the financial liability extinguished or transferred to another party and the consideration paid, including any non-cash assets transferred or liabilities assumed, is recognised in profit or loss.

### (d) Property, plant and equipment

#### (i) Recognition and measurement

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

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

## 2. SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

### (d) Property, plant and equipment (continued)

#### (i) Recognition and measurement (continued)

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 between knowledgeable willing parties 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 property, plant and equipment is based on the quoted market prices for similar items when available and replacement cost when appropriate.

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

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

#### (ii) Subsequent costs

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

#### (iii) Depreciation

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

Depreciation is recognised in profit or loss 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. Property, plant and equipment under construction are not depreciated until the assets are ready for their intended use.

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

| | |
|---|---|
| Leasehold land | 56 - 99 years |
| 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 |
| Vessels | 15 - 25 years |
| Drilling rig | 20 years |
| Diving equipment and remotely operated vehicle | 5 years |

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

## 2. SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

### (d) Property, plant and equipment (continued)

#### (iii) Depreciation (continued)

***Residual value for vessels and drilling rig***

The Group has estimated the residual value of the vessels and its tender assisted drilling rig to be approximately 20-25% and 10% of their costs respectively. The estimated residual value was made based on management's best estimate of the amount that the Group would obtain from the disposal or continuing use of the vessels at the end of 20 years.

### (e) Leased assets

#### (i) Finance lease

Leases in terms of which the Group or the Company assumes substantially all the risks and rewards of ownership are classified as finance leases. On 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

Leases, where the Group or the Company does not assume substantially all the risks and rewards of ownership are classified as operating leases and, the leased assets are not recognised in the statement of financial position of the Group or the Company.

In the previous years, a leasehold land that normally had an indefinite economic life and title was not expected to pass to the lessee by the end of the lease term was treated as an operating lease. The payment made on entering into or acquiring a leasehold land that was accounted for as an operating lease represents prepaid lease payments, except for leasehold land classified as investment property.

The Group has adopted the amendment made to FRS 117, Leases in 2010 in relation to the classification of lease of land. Leasehold land which in substance is a finance lease has been reclassified and measured as such retrospectively.

Payments made under operating leases are recognised in profit or loss on a straight-line basis over the term of the lease unless another systematic basis is more representative of the time pattern in which economic benefits from the leased asset are consumed. Lease incentives received are recognised in profit or loss as an integral part of the total lease expense, over the term of the lease.

## 2. SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

### (f) Intangible assets

#### (i) Goodwill

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

Goodwill with indefinite useful lives 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.

#### (ii) Expenditure on oil and gas properties

Expenditure on oil and gas properties is stated at cost less accumulated amortisation and any accumulated impairment losses. Cost comprises the purchase price or construction cost and any costs directly attributable to making that asset capable of operating as intended. The purchase price or the construction cost is the aggregate amount paid and the fair value of any other consideration given to acquire the asset.

The carrying amount is derecognised at the end of the contract or when no future economic benefits are expected from its use or disposal. The gain or loss arising from derecognition is recognised in the profit or loss.

#### (iii) Other intangible assets

Intangible assets, other than goodwill that are acquired by the Group, which have finite useful lives, are measured at cost or fair value less any accumulated amortisation and any accumulated impairment losses.

The fair value attributable to intangible assets acquired through a business combination is determined by discounting the expected future cash flows to be generated from the assets at the risk adjusted weighted average cost of capital for the group.

The residual values of intangible assets are assumed to be nil.

#### (iv) Amortisation

Goodwill are not amortised but are tested for impairment annually and whenever there is an indication that they may be impaired.

Other intangible assets and expenditure on oil and gas properties are amortised from the date that they are available for use.

Amortisation is recognised in profit or loss on a straight-line basis over the estimated useful lives of intangible assets.

## 2. SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

### (g) 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.

Net realisable value is the estimated selling price in the ordinary course of business, less the estimated costs of completion and the estimated costs necessary to make the sale.

The fair value of inventories acquired in a business combination is determined based on its estimated selling price in the ordinary course of business less the estimated costs of completion and sale, and a reasonable profit margin based on the effort required to complete and sell the inventories.

### (h) Receivables

Prior to 1 August 2010, receivables were initially recognised at their costs and subsequently measured at cost less allowance for doubtful debts.

Following the adoption of FRS 139, trade and other receivables are categorised and measured as loans and receivables in accordance with note 2(c).

### (i) Non-current assets held for sale

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

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

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

Intangible assets and property, plant and equipment once classified as held for sale or distribution are not amortised or depreciated. In addition, equity accounting of equity accounted investees ceases once classified as held for sale or distribution.

## 2. SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

### (j) Amount due from/(to) contract customers

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

Amount due from contract customers is presented as part of trade and other receivables as amount due from contract customers in the statement of financial position for all contracts in which costs incurred plus recognised profits exceed progress billings. If progress billings exceed costs incurred plus recognised profits, then the difference is presented as amount due to contract customers as part of trade and other payables in the statement of financial position.

### (k) Cash and cash equivalents

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

Cash and cash equivalents (other than bank overdrafts) are categorised and measured as loans and receivables in accordance with policy note 2(c).

### (l) Impairment

#### (i) Financial assets

All financial assets (except for investments in subsidiaries,associates and joint ventures) are assessed at each reporting date whether there is any objective evidence of impairment as a result of one or more events having an impact on the estimated future cash flows of the asset. Losses expected as a result of future events, no matter how likely, are not recognised.

An impairment loss in respect of loans and receivables is recognised in profit or loss and is measured as the difference between the asset's carrying amount and the present value of estimated future cash flows discounted at the asset's original effective interest rate. The carrying amount of the asset is reduced through the use of an allowance account.

An impairment loss in respect of available-for-sale financial assets is recognised in profit or loss and is measured as the difference between the asset's acquisition cost (net of any principal repayment and amortisation) and the asset's current fair value, less any impairment loss previously recognised. Where a decline in the fair value of an available-for-sale financial asset has been recognised in the other comprehensive income, the cumulative loss in other comprehensive income is reclassified from equity and recognised to profit or loss.

## 2. SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

### (l) Impairment (continued)

#### (i) Financial assets (continued)

An impairment loss in respect of unquoted equity instrument that is carried at cost is recognised in profit or loss and is measured as the difference between the asset's carrying amount and the present value of estimated future cash flows discounted at the current market rate of return for a similar financial asset.

If, in a subsequent period, the fair value of a debt instrument increases and the increase can be objectively related to an event occurring after the impairment loss was recognised in profit or loss, the impairment loss is reversed, to the extent that the asset's carrying amount does not exceed what the carrying amount would have been had the impairment not been recognised at the date the impairment is reversed. The amount of the reversal is recognised in profit or loss.

#### (ii) Other assets

The carrying amounts of other assets (except for inventories, assets arising from construction contract, deferred tax asset and non-current assets classified as held for sale) and investment in subsidiaries, associates and joint ventures classified as financial assets are reviewed at the end of each reporting period to determine whether there is any indication of impairment. If any such indication exists, then the asset's recoverable amount is estimated.

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

The recoverable amount of an asset or cash-generating unit is the greater of its value in use and its fair value less costs to sell. In assessing value in use, the estimated future cash flows are discounted to their present value using a pre-tax discount rate that reflects current market assessments of the time value of money and the risks specific to the asset.

An impairment loss is recognised if the carrying amount of an asset or its cash-generating unit exceeds its recoverable amount.

Impairment losses are recognised in profit or loss. 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.

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

## 2. SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

### (m) Equity instruments

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

#### (i) Issue expenses

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

#### (ii) Preference share capital

Preference share capital is classified as equity if it is non-redeemable, or is redeemable but only at the company's option, and any dividends are discretionary. Dividends thereon are recognised as distributions within equity.

Preference share capital is classified as liability if it is redeemable on a specific date or at the option of the equity holders, or if dividend payments are not discretionary. Dividends thereon are recognised as interest expense in profit or loss as accrued.

### (n) 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 liability 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.

#### (ii) State plans

The Group's contributions to statutory pension funds are charged to profit or loss 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)

### (n) Employee benefits (continued)

#### (iii) Share-based payment transactions

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

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

The fair value of employee share options is measured using the Black Scholes model. Measurement inputs include share price on measurement date, exercise price of the instrument, expected volatility (based on weighted average historic volatility adjusted for changes expected due to publicly available information), weighted average expected life of the instruments (based on historical experience and general option holder behaviour), expected dividends, 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.

### (o) 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.

## 2. SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

### (p) Revenue and other income

#### (i) Construction contracts

Contract revenue includes the initial amount agreed in the contract plus any variations in contract work, claims and incentive payments, to the extent that it is probable that they will result in revenue and can be measured reliably. As soon as the outcome of a construction contract can be estimated reliably, contract revenue and contract cost are recognised in profit or loss in proportion to the stage of completion of the contract. Contract expenses are recognised as incurred unless they create an asset related to future contract activity.

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

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

#### (ii) Services

Revenue from manpower services is recognised in profit or loss on the accrual basis.

#### (iii) Chartered vessel income

Chartered vessel income is recognised when the services are rendered and is computed at the contracted daily rate. In the event invoices are yet to be issued at year end, the revenue is accrued to the extent of the services rendered at the end of reporting period.

#### (iv) Offshore drilling and drilling related services

Offshore drilling and drilling related services income are recognised when the services are rendered and are computed at the contracted daily rate. In the event invoices are yet to be issued at year end, the revenue is accrued to the extent of the services rendered at the end of reporting period.

#### (v) Ship management income

Ship management income is recognised when the services are rendered and is computed based on contracted rate. In the event invoices are yet to be issued at year end, the revenue is accrued to the extent of the services rendered at the end of reporting period.

#### (vi) Equipment rental income

Equipment rental income is recognised upon rendering of services and when the outcome of the transaction can be estimated reliably. In the event the outcome of the transaction could not be estimated reliably, revenue is recognised to the extent of the expenses incurred that are recoverable.

## 2. SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

### (p) Revenue and other income (continued)

#### (vii) Management fees

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

#### (viii) Rental income

Rental income is recognised on an accrual basis.

#### (ix) Dividend income

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

#### (x) Interest income

Interest income is recognised as it accrues using the effective interest method in profit or loss except for interest income arising from temporary investment of borrowings taken specifically for the purpose of obtaining a qualifying asset which is accounted for in accordance with the accounting policy on borrowing costs.

### (q) Borrowing costs

Borrowing costs that are not directly attributable to the acquisition, construction or production of a qualifying asset are recognised in profit or loss using the effective interest method.

Before 1 August 2010, all borrowing costs were recognised in profit or loss using the effective interest method in the period in which they are incurred.

Following the adoption of revised FRS 123, Borrowing Costs, borrowing costs directly attributable to the acquisition, construction or production of qualifying assets, which are assets that necessarily take a substantial period of time to get ready for their intended use or sale, are capitalised as part of the cost of those assets.

The capitalisation of borrowing costs as part of the cost of a qualifying asset commences when expenditure for the asset is being incurred, borrowing costs are being incurred and activities that are necessary to prepare the asset for its intended use or sale are in progress. Capitalisation of borrowing costs is suspended or ceases when substantially all the activities necessary to prepare the qualifying asset for its intended use or sale are interrupted or completed.

Investment income earned on the temporary investment of specific borrowings pending their expenditure on qualifying assets is deducted from the borrowing costs eligible for capitalisation.

### (r) Income tax

Income tax expense comprises current and deferred tax. Income tax expense is recognised in profit or loss except to the extent that it relates to a business combination or items recognised directly in equity or other comprehensive income.

Current tax is the expected tax payable on the taxable income for the year, using tax rates enacted or substantively enacted by the end of the reporting period, and any adjustment to tax payable in respect of previous years.

## 2. SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

### (r) Income tax (continued)

Deferred tax is recognised using the liability method, providing for temporary differences between the carrying amounts of assets and liabilities in the statement of financial position and their tax bases. Deferred tax is not recognised for the following temporary differences: the initial recognition of goodwill, and the initial recognition of assets or liabilities in a transaction that is not a business combination and that affects neither accounting nor taxable profit or loss.

Deferred tax is measured at the tax rates that are expected to apply to the temporary differences when they reverse, based on the laws that have been enacted or substantively enacted by the end of the reporting period.

Deferred tax assets and liabilities are offset if there is a legally enforceable right to offset current tax liabilities and assets, and they relate to income taxes levied by the same tax authority on the same taxable entity, or on different tax entities, but they intend to settle current tax liabilities and assets on a net basis or their tax assets and liabilities will be realised simultaneously.

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

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

### (s) Earnings per share

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

Basic EPS is calculated by dividing the profit or loss attributable to ordinary shareholders of the Company by the weighted average number of ordinary shares outstanding during the period.

Diluted EPS is determined by adjusting the profit or loss attributable to ordinary 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.

### (t) Operating segments

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

## 3. PROPERTY, PLANT AND EQUIPMENT

| Group | Freehold land RM'000 | Leasehold land RM'000 | Freehold office premises RM'000 | Leasehold buildings and structures RM'000 | Computers, equipment, air-conditioners, fixtures and fittings RM'000 | Motor vehicles RM'000 | Plant and machinery RM'000 | Vessels, drilling rig & diving equipment RM'000 | Total RM'000 |
|---|---|---|---|---|---|---|---|---|---|
| ***Cost*** | | | | | | | | | |
| At 1 August 2009, *restated* | 750 | 66,217 | 3,991 | 164,308 | 20,943 | 11,925 | 107,816 | – | 375,950 |
| Additions | – | 28,447 | – | 31,847 | 2,312 | 2,524 | 15,423 | 127,652 | 208,205 |
| Disposals | – | – | (2,620) | (19) | (438) | (1,416) | (498) | – | (4,991) |
| Written off | – | – | – | (470) | (831) | (6) | (143) | – | (1,450) |
| Transfer to assets held for sale | (750) | – | – | (3,404) | (36) | – | – | – | (4,190) |
| Reclassification | – | – | – | (5,594) | 5,188 | – | 406 | – | – |
| At 31 July 2010/ 1 August 2010, *restated* | – | 94,664 | 1,371 | 186,668 | 27,138 | 13,027 | 123,004 | 127,652 | 573,524 |
| Additions | – | 129 | – | 35,013 | 14,125 | 4,971 | 84,692 | 172,350 | 311,280 |
| Acquisitions through business combinations | 4,567 | 1,972 | – | 9,746 | 2,763 | 970 | 711 | 838,043 | 858,772 |
| Disposals | – | – | – | (761) | (2,713) | (1,391) | (566) | – | (5,431) |
| Written off | – | – | – | (29) | (1,034) | – | – | – | (1,063) |
| Transfer to disposal group held for sale (Note 12) | – | – | – | (863) | (89) | – | (439) | – | (1,391) |
| Reclassification | – | – | – | (4,478) | – | – | 4,478 | – | – |
| Effects of movements in exchange rates | – | – | – | – | (126) | – | (5) | (41,337) | (41,468) |
| **At 31 July 2011** | **4,567** | **96,765** | **1,371** | **225,296** | **40,064** | **17,577** | **211,875** | **1,096,708** | **1,694,223** |

## 3. PROPERTY, PLANT AND EQUIPMENT (CONTINUED)

| Group | Freehold land RM'000 | Leasehold land RM'000 | Freehold office premises RM'000 | Leasehold buildings and structures RM'000 | Computers, equipment, air-conditioners, fixtures and fittings RM'000 | Motor vehicles RM'000 | Plant and machinery RM'000 | Vessels, drilling rig & diving equipment RM'000 | Total RM'000 |
|---|---|---|---|---|---|---|---|---|---|
| ***Accumulated depreciation*** | | | | | | | | | |
| At 1 August 2009, *restated* | 172 | 2,602 | 318 | 15,200 | 10,694 | 4,645 | 33,148 | – | 66,779 |
| Depreciation for the year | 1 | 744 | 75 | 3,475 | 2,868 | 2,217 | 10,688 | 3,283 | 23,351 |
| Disposals | – | – | (295) | (4) | (80) | (639) | (5) | – | (1,023) |
| Written off | – | – | – | (311) | (603) | (3) | (140) | – | (1,057) |
| Transfer to assets held for sale | (173) | – | – | (231) | (13) | – | – | – | (417) |
| Reclassification | – | – | – | (2,772) | 2,772 | – | – | – | – |
| At 31 July 2010/ 1 August 2010, *restated* | – | 3,346 | 98 | 15,357 | 15,638 | 6,220 | 43,691 | 3,283 | 87,633 |
| Depreciation for the year | – | 1,994 | 16 | 4,880 | 3,968 | 2,564 | 14,354 | 38,253 | 66,029 |
| Acquisitions through business combinations | – | 55 | – | 417 | 1,605 | 284 | 215 | 39,248 | 41,824 |
| Disposals | – | – | – | (39) | (1,951) | (778) | (169) | – | (2,937) |
| Written off | – | – | – | (16) | (632) | – | – | – | (648) |
| Transfer to disposal group held for sale (Note 12) | – | – | – | (48) | (22) | – | (105) | – | (175) |
| Effects of movements in exchange rates | – | – | – | – | (54) | – | (2) | (1,451) | (1,507) |
| **At 31 July 2011** | **–** | **5,395** | **114** | **20,551** | **18,552** | **8,290** | **57,984** | **79,333** | **190,219** |
| ***Carrying amounts*** | | | | | | | | | |
| At 1 August 2009, *restated* | 578 | 63,615 | 3,673 | 149,108 | 10,249 | 7,280 | 74,668 | – | 309,171 |
| At 31 July 2010/ 1 August 2010, *restated* | – | 91,318 | 1,273 | 171,311 | 11,500 | 6,807 | 79,313 | 124,369 | 485,891 |
| **At 31 July 2011** | **4,567** | **91,370** | **1,257** | **204,745** | **21,512** | **9,287** | **153,891** | **1,017,375** | **1,504,004** |

## 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 2009 | 118 | 540 | 432 | 1,090 |
| Additions | 3 | 132 | 1,865 | 2,000 |
| Disposal | (10) | (117) | (451) | (578) |
| Written off | (111) | (57) | – | (168) |
| At 31 July 2010/1 August 2010 | – | 498 | 1,846 | 2,344 |
| Additions | 5,165 | 7,217 | 1,080 | 13,462 |
| Disposal | – | – | (4) | (4) |
| Written off | – | (35) | – | (35) |
| **At 31 July 2011** | **5,165** | **7,680** | **2,922** | **15,767** |
| ***Accumulated depreciation*** | | | | |
| At 1 August 2009 | 16 | 69 | 66 | 151 |
| Depreciation for the year | 11 | 70 | 146 | 227 |
| Disposal | (2) | (27) | (128) | (157) |
| Written off | (25) | (12) | – | (37) |
| At 31 July 2010/1 August 2010 | – | 100 | 84 | 184 |
| Depreciation for the year | 353 | 817 | 452 | 1,622 |
| Disposal | – | – | (2) | (2) |
| Written off | – | (6) | – | (6) |
| **At 31 July 2011** | **353** | **911** | **534** | **1,798** |
| ***Carrying amount*** | | | | |
| At 1 August 2009 | 102 | 471 | 366 | 939 |
| At 31 July 2010/1 August 2010 | – | 398 | 1,762 | 2,160 |
| **At 31 July 2011** | **4,812** | **6,769** | **2,388** | **13,969** |

## 3. PROPERTY, PLANT AND EQUIPMENT (CONTINUED)

***Security***

At 31 July 2011, the following assets have been pledged to licensed banks as security for term loan facilities granted to the Group and to the Company (Note 15):

| | Group | |
|---|---|---|
| | **2011** | **2010** |
| | **RM'000** | **RM'000** |
| Freehold land | **4,567** | – |
| Leasehold land | **15,268** | 15,402 |
| Freehold office premises | **–** | 735 |
| Leasehold building and structures | **62,035** | 61,663 |
| Vessels | **473,947** | 45,292 |
| Tender assisted drilling rig | **512,773** | – |

***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 RM62,991,000 (2010: RM51,593,000) and RM2,381,000 (2010: RM442,000) respectively.

***Titles***

The issuance of title for eight plots (2010 - eight plots) of land situated at Lumut Port Industrial Park, Kampung Acheh, Mukim Lumut, District of Manjung, Perak is still pending as at the end of the financial year.

***Land***

The carrying amounts of land at 1 August 2009 and 31 July 2010 have been adjusted following the adoption of the amendments to FRS 117, Leases, where leasehold land, in substance is a finance lease, has been reclassified from prepaid lease payments to property, plant and equipment. The leasehold land has an unexpired period of more than 50 years.

## 4. INTANGIBLE ASSETS

| | Goodwill RM'000 | Customer contracts RM'000 | Expenditure on oil and gas properties RM'000 | Total RM'000 |
|---|---|---|---|---|
| ***Cost*** | | | | |
| At 1 August 2009 | 36,166 | – | – | 36,166 |
| Acquisition of subsidiaries | 1,169 | – | – | 1,169 |
| At 31 July 2010/ 1 August 2010 | 37,335 | – | – | 37,335 |
| Acquisition of subsidiaries | 270,774 | 33,130 | – | 303,904 |
| Additions during the year | – | – | 98,910 | 98,910 |
| Transfer to disposal group held for sale | (7,002) | – | – | (7,002) |
| **At 31 July 2011** | **301,107** | **33,130** | **98,910** | **433,147** |
| **Accumulated impairment losses** | | | | |
| At 1 August 2009/ 31 July 2010/ 1 August 2010 | – | – | – | – |
| Impairment loss | (84) | – | – | (84) |
| **At 31 July 2011** | **(84)** | **–** | **–** | **(84)** |
| **Carrying amount** | | | | |
| At 1 August 2009 | 36,166 | – | – | 36,166 |
| At 31 July 2010/ 1 August 2010 | 37,335 | – | – | 37,335 |
| **At 31 July 2011** | **301,023** | **33,130** | **98,910** | **433,063** |

**Expenditure on oil and gas properties**

Expenditure on oil and gas properties comprise cost incurred for the development of an oilfield, where it is reasonably estimated that the costs will be recovered through future production of oil and gas from the oilfield. Expenditures on oil and gas properties are amortised on a straight-line basis over a period of 7 years from the date when the gas is successfully extracted from the oilfield.

**Customer contracts**

The Group's policy in relation to customer contracts is to amortise the costs of these customer contracts from the date they are available for use and are recognised in profit or loss on a straight line basis over their estimated useful lives of 1-2 years.

## 4. INTANGIBLE ASSETS (CONTINUED)

**Impairment testing for cash-generating units containing goodwill**

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

| | Group | |
|---|---|---|
| | **2011** | **2010** |
| | **RM'000** | **RM'000** |
| Allied Marine & Equipment Sdn. Bhd. and its subsidiaries ("AME Group") | **262,920** | – |
| Kencana HL Sdn. Bhd. and its subsidiaries ("Kencana HL Group") | **23,469** | 23,469 |
| Kencana Torsco Sdn. Bhd. and its subsidiaries ("Kencana Torsco Group") | **11,927** | 11,927 |
| Kencana Petroleum Ventures Sdn. Bhd. and its subsidiaries ("KPV Group") | **1,937** | 1,169 |
| Kencana Pinewell Sdn. Bhd. | **770** | 770 |
| | **301,023** | 37,335 |

Please refer to Note 5 to the financial statements for the details of Kencana HL Sdn. Bhd.'s, Kencana Petroleum Ventures Sdn. Bhd.'s and Allied Marine & Equipment 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 except for impairment loss of RM84,000 in relation to the goodwill recognised for KPV Group.

**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.

AME Group

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 continuous growth rate (based on existing and secured projects in 2011 and reflects the average historical growth rate) is projected from the year ending 31 July 2012 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' weighted average cost of capital.

### 4. INTANGIBLE ASSETS (CONTINUED)

**Key assumptions used in value in use calculations (continued)**

Kencana HL Group and Kencana Torsco Group

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 2011) is projected for the year ending 31 July 2012 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' weighted average cost of capital.

KPV Group

The key assumptions used for each of the cash-generating units' value in use calculations are as follows:

**(i) Revenue**

The charter rate is expected to remain constant over the projected period whereas ship management fee is expected to increase by 5.00% annually over the 5 year period.

**(ii) Growth rate**

A positive profit growth of 2.00% based on the secured contracts is projected for the financial year ending 31 July 2012 onwards.

**(iii) Operating expenses**

Operating expenses are projected to be in line with revenue over the 5 year period except for insurance expense, which is expected to decrease in line with the carrying value of the vessel.

**(iv) Discount rate**

The discount rate used approximates the cash-generating units' weighted average cost of capital.

## 4. INTANGIBLE ASSETS (CONTINUED)

**Sensitivity to changes in assumptions**

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

Management does not foresee any changes to the cash-generating units' weighted average cost of capital. Hence, estimates in relation to the discount rate used are not particularly sensitive.

## 5. INVESTMENTS IN SUBSIDIARIES

| | | Company | |
|---|---|---|---|
| | | **2011** | **2010** |
| | **Note** | **RM'000** | **RM'000** |
| Unquoted shares, at cost | | **613,792** | 120,390 |
| Share options granted under ESOS | | **7,054** | 5,019 |
| Amount due from subsidiaries | 5.1 | **227,000** | – |
| | | **847,846** | 125,409 |

5.1 Amount due from subsidiaries of RM227,000,000 are non-trade in nature, unsecured and interest free. The settlement of the amount is neither planned nor likely to occur in the foreseeable future. As this amount is, in substance, a part of the holding company's net investment in the subsidiaries, it is stated at cost.

Details of the subsidiaries are as follows:

| Name of subsidiaries | Principal activities | Country of incorporation | Effective ownership interest 2011 % | 2010 % |
|---|---|---|---|---|
| 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 Infrastructure Sdn. Bhd. | Specialised fabrication and infrastructure construction | Malaysia | **100** | 100 |
| Kencana Metering Sdn. Bhd. | Dormant | Malaysia | **100** | 100 |
| Kencana Steelworks Sdn. Bhd.# | Dormant | Malaysia | **70** | 70 |

**5. INVESTMENTS IN SUBSIDIARIES (CONTINUED)**

Details of the subsidiaries are as follows: (continued)

| Name of subsidiaries | Principal activities | Country of incorporation | Effective ownership interest 2011 % | 2010 % |
|---|---|---|---|---|
| Kencana Torsco Sdn.Bhd. and its subsidiaries (a) | Engineering, fabrication and construction works | Malaysia | **100** | 100 |
| Kencana Torsco Overseas Sdn. Bhd. | Provision of engineering, fabrication and construction works | Malaysia | **100** | 100 |
| Kencana Torsco Assets Sdn. Bhd.# | Property investment | Malaysia | **100** | 100 |
| Kencana Torsco (Hong Kong) Private Limited (b) | Engineering, fabrication and construction works | Hong Kong | **100** | – |
| Kencana Bestwide Sdn. Bhd. | Engineering, procurement, construction (fabrication) and commissioning ("EPCC"), design and engineering and project management | Malaysia | **100** | 100 |
| Kencana Pinewell Sdn. Bhd. | Offshore and onshore construction support services, hook-up, commissioning, maintenance and de-commissioning services | Malaysia | **100** | 100 |
| Kencana Petroleum Ventures Sdn. Bhd. and its subsidiaries | Investment holding | Malaysia | **100** | 100 |
| Kencana Marine Drilling Sdn. Bhd. (c) | Offshore drilling and drilling related services in the oil and gas industry | Malaysia | **100** | 60 |
| Kencana Marine Rig 1 Pte. Ltd. (c) | Dormant | Singapore | **100** | 25 |
| Kencana Marine Rig 1 (Labuan) Pte. Ltd. (c) | Leasing activities | Malaysia | **100** | 25 |

## 5. INVESTMENTS IN SUBSIDIARIES (CONTINUED)

Details of the subsidiaries are as follows: (continued)

| Name of subsidiaries | Principal activities | Country of incorporation | Effective ownership interest 2011 % | 2010 % |
|---|---|---|---|---|
| Kencana Marine Rig 2 (Labuan) Pte. Ltd. (d) | Dormant | Malaysia | **100** | – |
| Kencana Marine Rig 3 (Labuan) Pte. Ltd. (d) | Dormant | Malaysia | **100** | – |
| Kencana Nautilus Sdn. Bhd. and its subsidiaries | Provision of marine transportation and support services | Malaysia | **100** | 100 |
| Gemia (Labuan) Pte.Ltd. | Owner and operator of an offshore support vessel | Malaysia | **100** | 100 |
| Teras-Kencana Ventures Sdn. Bhd. # | Owner and operator of an offshore support vessel | Malaysia | **67** | 67 |
| Redang (Labuan) Pte. Ltd. (e) | Owner and operator of an offshore support vessel | Malaysia | **100** | – |
| Dhow Offshore Sdn. Bhd. (f) | Provision of ship management services | Malaysia | **100** | – |
| Kencana Energy Sdn. Bhd. (f.k.a. Finest Glory Sdn. Bhd.) (g) | Development and production of petroleum resources | Malaysia | **100** | – |
| Allied Marine & Equipment Sdn. Bhd. and its subsidiaries (h) | Provision of subsea services | Malaysia | **100** | – |
| AME Marine Services Sdn. Bhd. | Provision of vessel related management services | Malaysia | **100** | – |
| Allied Support Corporation | Vessels owner and letting of dynamic positioning vessels and related equipment | Malaysia | **100** | – |
| Maju Hydro Sdn. Bhd. | Dormant | Malaysia | **100** | – |
| AME Corporation | Provision of subsea services | Malaysia | **100** | – |
| Merit Technologies Sdn. Bhd. (i) | Trading and supply of protective coating systems | Malaysia | **100** | – |

## 5. INVESTMENTS IN SUBSIDIARIES (CONTINUED)

(a) On 1 August 2010, the Company reorganised the shareholding of its indirect subsidiary, Kencana Torsco Sdn. Bhd. ("KTC"). The entire equity interest of KTC comprising 10,000,000 ordinary shares of RM1.00 each was transferred to the Company from Kencana HL Sdn. Bhd., a direct wholly-owned subsidiary of the Company for a purchase consideration of RM93,402,514. As a result of the transfer, KTC became a direct wholly-owned subsidiary of the Company.

(b) On 21 April 2011, KTC incorporated a wholly-owned subsidiary under the name of Kencana Torsco (Hong Kong) Private Limited ("KTHK") under the laws of Hong Kong Special Administrative Region of the People's Republic of China, with a paid up capital of HK$1.00. The incorporation in Kencana Torsco (Hong Kong) Private Limited has been consolidated based on the unaudited management financial statements for the period ended 31 July 2011.

(c) <u>Acquisition of companies from Mermaid Drilling (Singapore) Pte Ltd ("MDS")</u>

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

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

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

(iii) 3 ordinary shares of USD1.00 each representing 75% equity interest in Kencana Marine Rig 1 (Labuan) Pte. Ltd. ("KMR1 Labuan") for the purchase consideration of USD3.

The acquisitions were completed on 5 August 2010.

(d) On 18 July 2011, Kencana Petroleum Ventures Sdn. Bhd. incorporated two (2) subsidiaries under the name of Kencana Marine Rig 2 (Labuan) Pte Ltd and Kencana Marine Rig 3 (Labuan) Pte Ltd with a paid up capital of USD1.00 each.

(e) On 31 January 2011, Kencana Nautilus Sdn. Bhd. ("KNSB") incorporated a wholly-owned subsidiary, Redang (Labuan) Pte. Ltd., in the Federal Territory of Labuan with an issued and paid-up share capital of USD1.00 comprising 1 ordinary shares of USD1.00.

## 5. INVESTMENTS IN SUBSIDIARIES (CONTINUED)

(f) On 24 January 2011, KNSB acquired the entire issued and paid-up share capital of Dhow Offshore Sdn. Bhd. comprising 100,000 ordinary shares of RM1.00 each for a cash consideration of RM1,000,000.

(g) The Company had on 18 November 2010 acquired the entire issued and paid-up share capital of Finest Glory Sdn. Bhd. ("FGSB") comprising 2 ordinary shares of RM1.00 each at par.

FGSB was incorporated on 13 October 2010 and has subsequently changed its name to Kencana Energy Sdn. Bhd. on 29 November 2010.

(h) On 13 May 2011 the Company has executed a sale and purchase agreement for the acquisition of 100% equity interest in Allied Marine & Equipment Sdn. Bhd. ("AME") for a purchase consideration of RM400.0 million, which was satisfied by the issuance of 149,253,731 new ordinary shares of RM0.10 each in the Company ("Consideration Shares") at an issue price of RM2.68 per ordinary share.

The acquisition was completed on 13 July 2011 following the issuance and allotment of the Consideration Shares.

(i) Subsequent to the financial year ended 31 July 2011, AME has entered into a share sale agreement on 29 August 2011 to dispose of 100% equity interest in Merit Technologies Sdn. Bhd. for a total consideration of RM7,000,000.

# The auditors' report on the audited financial statements of the subsidiaries contained an emphasis on the reliance of the subsidiaries on the continuing financial support from the Company or respective immediate holding companies in order to continue operating as a going concern.

## 6. INVESTMENTS IN ASSOCIATES

| | Group | |
|---|---|---|
| | **2011 RM'000** | **2010 RM'000** |
| Ordinary shares | | |
| Unquoted shares | | |
| - At cost | **280** | 53,514 |
| - Share of reserves | **1,857** | 343 |
| | **2,137** | 53,857 |

## 6. INVESTMENTS IN ASSOCIATES (CONTINUED)

Details of the associates are as follows:

| Name of subsidiaries | Principal activities | Country | Effective ownership interest 2011 % | 2010 % |
|---|---|---|---|---|
| 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 |
| KMR Singapore | Provision of offshore drilling and related services in the oil and gas industry | Singapore | **–** | 25.0 |
| KMR1 Labuan | Leasing activities | Malaysia | **–** | 25.0 |

| | |
|---|---|
| BWE | Best Wide Engineering (M) Sdn. Bhd. |
| MM | Matrix Maintenance Sdn. Bhd. |
| KMR Singapore | Kencana Marine Rig 1 Pte. Ltd. |
| KMR1 Labuan | Kencana Marine Rig 1 (Labuan) Pte. Ltd. |

**Note a**

Kencana Petroleum Ventures Sdn. Bhd. ("KPV"), a wholly-owned subsidiary of the Company had on 21 June 2010 executed three (3) separate conditional sale and purchase agreements ("SPA") for the acquisition by KPV from Mermaid Drilling (Singapore) Pte. Ltd. ("MDS") the entire equity interest held by MDS in KMR Singapore and KMR1 Labuan resulting in KMR Singapore and KMR1 Labuan becoming subsidiaries of the Company (refer Note 5).

**The summarised financial information of the associates are as follows:**

| 2011 | Total assets RM'000 100% | Total liabilities RM'000 100% | Revenue RM'000 100% | Net profit RM'000 100% |
|---|---|---|---|---|
| BWE | **14,510** | **11,169** | **16,914** | **263** |
| MM | **4,947** | **1,003** | **1,896** | **165** |
| | **19,457** | **12,172** | **18,810** | **428** |

## 6. INVESTMENTS IN ASSOCIATES (CONTINUED)

| **2010** | **Total assets RM'000 100%** | **Total liabilities RM'000 100%** | **Revenue RM'000 100%** | **Net profit/ (loss) RM'000 100%** |
|---|---|---|---|---|
| BWE | 5,941 | (2,893) | 14,415 | 570 |
| MM | 4,761 | (995) | 3,017 | 163 |
| KMR Singapore | 373,990 | (160,536) | – | (2,690) |
| KMR1 Labuan | 22 | (106) | – | (64) |
| | 384,714 | (164,530) | 17,432 | (2,021) |

The share of results was based on unaudited financial statements of the associates for the financial year ended 31 July 2010 and 2011.

## 7. INVESTMENTS IN JOINTLY CONTROLLED ENTITIES

| | **Group** | |
|---|---|---|
| | **2011 RM'000** | **2010 RM'000** |
| At cost: | | |
| Unquoted shares | ***** | * |
| Share of reserves | **6** | 4 |
| | **6** | 4 |

* Denotes RM50

Details of the jointly controlled entities are as follows:

| **Company** | **Principal activities** | **Country of incorporation** | **Effective ownership interest 2011 %** | **Effective ownership interest 2010 %** |
|---|---|---|---|---|
| Best Wide MCCS Sdn. Bhd.*@ | Undertaking of engineering contracts and provision of related consultancy services | Malaysia | **50** | 50 |

@ Jointly controlled entity not audited by KPMG

* The share of results was based on the unaudited financial statements of the jointly controlled entity for the financial year ended 31 July 2010 and 2011.

## 8. INVESTMENT IN PREFERENCE SHARES

| | Group | |
|---|---|---|
| | **2011** | **2010** |
| **Non current** | **RM'000** | **RM'000** |
| *Available-for-sale financial asset* | | |
| Non-cumulative non convertible preference shares | **–** | 1,352 |

The investment in preference shares represents an investment in a company which in turn has a non-controlling interest in a subsidiary.

During the financial year, the Group executed a share sales agreement with the non-controlling interest of the said subsidiary. Upon signing of the agreement, the Group disposed of its investment in preference shares of RM1,352,000 via a share swap, resulting in the Group acquiring the non-controlling interests' preference shares of the subsidiary.

## 9. INVENTORIES

| | Group | |
|---|---|---|
| | **2011** | **2010** |
| | **RM'000** | **RM'000** |
| At cost: | | |
| Raw materials and consumables | **14,289** | 27,311 |
| At net realisable value: | | |
| Raw materials and consumables | **10,401** | – |
| | **24,690** | 27,311 |

## 10. TRADE AND OTHER RECEIVABLES

| | | Group | | Company | |
|---|---|---|---|---|---|
| | | **2011** | **2010** | **2011** | **2010** |
| | **Note** | **RM'000** | **RM'000** | **RM'000** | **RM'000** |
| **Non-current** | | | | | |
| **Non-trade** | | | | | |
| Amounts due from subsidiaries | a | **–** | – | **42,075** | 306,472 |
| Other receivables | | **–** | 300 | **–** | – |
| | | **–** | 300 | **42,075** | 306,472 |
| **Current** | | | | | |
| **Trade** | | | | | |
| Trade receivables | b | **363,728** | 148,908 | **–** | – |
| Amount due from contract customers | c | **71,159** | 180,650 | **–** | – |
| Amounts due from subsidiaries | a | **–** | – | **105,462** | 19,000 |
| Amounts due from associates | d | **7,787** | 84,851 | **–** | – |
| Amount due from jointly controlled entity | d | **5** | – | **–** | – |
| Contract advances | e | **2,629** | – | **–** | – |
| | | **445,308** | 414,409 | **105,462** | 19,000 |

## 10. TRADE AND OTHER RECEIVABLES (CONTINUED)

| | Note | Group 2011 RM'000 | Group 2010 RM'000 | Company 2011 RM'000 | Company 2010 RM'000 |
|---|---|---|---|---|---|
| **Non-trade** | | | | | |
| Other receivables | | **18,854** | 4,740 | **–** | – |
| Deposits | f | **8,325** | 112,316 | **1,349** | 66 |
| | | **27,179** | 117,056 | **1,349** | 66 |
| | | **472,487** | 531,465 | **106,811** | 19,066 |
| | | **472,487** | 531,765 | **148,886** | 325,538 |

**Note a**

Included in amounts due from subsidiaries are advances to subsidiaries repayable as follows:

| | Note | Company 2011 RM'000 | Company 2010 RM'000 |
|---|---|---|---|
| **Non-current** | (i) | **42,075** | 306,472 |
| **Current** | (ii) | **105,462** | 19,000 |
| | | **147,537** | 325,472 |

(i) As at 31 July 2011, the amounts due from subsidiaries are secured against a vessel owned by a subsidiary, bearing interest of 5.70% per annum and repayable over a period of 84 months commencing from 1 February 2011.

As at 31 July 2010, the amounts due from subsidiaries were interest-free, unsecured and were not repayable within the next twelve (12) months.

(ii) Included in amounts due from subsidiaries is RM12,796,000 (2010 – nil) secured against a vessel owned by a subsidiary, bearing interest ranging from 2.82% to 5.70% per annum and repayable within a year.

The remaining current portion of the amounts due from subsidiaries amounting to RM92,666,000 (2010 – RM19,000,000) are unsecured, interest-free and repayable on demand.

**Note b**

Included in trade receivables of the Group are retention sums from contract customers of RM14,769,000 (2010 - RM21,999,000). 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.

## 10. TRADE AND OTHER RECEIVABLES (CONTINUED)

**Note c**

| | Group 2011 RM'000 | Group 2010 RM'000 |
|---|---|---|
| Aggregate costs incurred to date | **3,450,302** | 1,878,941 |
| Add: Attributable profits less foreseeable losses | **583,813** | 284,870 |
| | **4,034,115** | 2,163,811 |
| Less: Progress billings | **(4,188,004)** | (2,191,291) |
| | **(153,889)** | (27,480) |
| Amount due to contract customers (Note 17) | **225,048** | 208,130 |
| Amount due from contract customers | **71,159** | 180,650 |

Additions to aggregate costs incurred during the financial year include:

| | Group 2011 RM'000 | Group 2010 RM'000 |
|---|---|---|
| Realised loss/(gain) on foreign exchange | **110** | (555) |
| Rental of premises | **–** | 908 |
| Rental of staff quarters | **446** | 341 |
| Hiring of plant and equipment | **23,864** | 9,511 |
| Hiring of motor vehicles | **533** | 481 |

**Note d**
The amounts due from associates and jointly controlled entity of the Group are interest free, unsecured and repayable on demand.

**Note e**
Contract advances to subcontractors and suppliers are unsecured, interest free and expected to be offset with billings received in accordance to the contract agreement.

**Note f**
As at 31 July 2010, included in deposits of the Group is the initial payment made to Mermaid Drilling (Singapore) Pte. Ltd. of RM101,128,800 for the acquisition of the remaining equity interest in Kencana Marine Drilling Sdn. Bhd. ("KMD"), Kencana Marine Rig 1 Pte. Ltd. ("KMR Singapore") and Kencana Marine Rig 1 (Labuan) Pte. Ltd. ("KMR1 Labuan"). During the financial year, the deposits crystallised upon the completion of the acquisition of KMD, KMR Singapore and KMR1 Labuan by Kencana Petroleum Ventures Sdn. Bhd. ("KPV").

## 11. CASH AND CASH EQUIVALENTS

| | Group | | Company | |
|---|---|---|---|---|
| | **2011** | **2010** | **2011** | **2010** |
| | **RM'000** | **RM'000** | **RM'000** | **RM'000** |
| Cash and bank balances | **140,242** | 149,604 | **9,311** | 16,835 |
| Deposits placed with licensed banks | **687,568** | 72,786 | **279,200** | 10,245 |
| | **827,810** | 222,390 | **288,511** | 27,080 |

Included in deposits placed with licensed banks of the Group is RM25,868,000 (2010: RM25,633,000) pledged to financial institutions for credit facilities granted to the Group as disclosed in Note 15.

## 12. DISPOSAL GROUP HELD FOR SALE

***For financial year ended 31 July 2011***

Merit Technologies Sdn. Bhd. ("Merit"), a wholly owned subsidiary of Allied Marine & Equipment Sdn. Bhd. is presented as a disposal group held for sale following the commitment of the Group's management, to a plan to sell Merit.  The sale was finalised on 29 August 2011 following the Share Sale Agreement to dispose of 100% equity interest for a total consideration of RM7,000,000. At 31 July 2011, the assets and liabilities of the disposal group are as follows:

| | | Group |
|---|---|---|
| | **Note** | **2011** |
| | | **RM'000** |
| **Assets classified as held for sale** | | |
| Property, plant and equipment | a | 1,216 |
| Goodwill | b | 7,002 |
| Inventories | c | 3,177 |
| Trade and other receivables | | 1,005 |
| Current tax asset | | 26 |
| Cash and cash equivalents | | 1,046 |
| | | 13,472 |
| **Liabilities classified as held for sale** | | |
| Trade and other payables | | 3,729 |
| Loans and borrowings | | 542 |
| Deferred tax liabilities | | 77 |
| | | 4,348 |

## 12. DISPOSAL GROUP HELD FOR SALE (CONTINUED)

**Note a**
Property, plant and equipment held for sale comprise the following:

| | Group 2011 RM'000 |
|---|---|
| Cost | 1,391 |
| Accumulated depreciation | (175) |
| | 1,216 |

**Note b**
The carrying amount of the goodwill was assessed for impairment during the year. The recoverable amount of the goodwill is determined based on the fair value less costs to sell. Based on the assessment of the fair value less costs to sell, the recoverable amount is higher than the carrying amount of the investment in Merit.

**Note c**
The inventories held for sale comprise raw materials and work in progress and are carried at the lower of cost and net realisable value.

***For financial year ended 31 July 2010***

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

The Group reported a profit of RM207,000 from the sale of the assets classified as held for sale during the financial year.

| Group | Freehold land RM'000 | Buildings and structures RM'000 | Furniture and fittings RM'000 | Total RM'000 |
|---|---|---|---|---|
| **Cost** | | | | |
| At 1 August 2010 | 750 | 3,404 | 36 | 4,190 |
| Disposal | (750) | (3,404) | (36) | (4,190) |
| **At 31 July 2011** | **–** | **–** | **–** | **–** |
| **Accumulated depreciation** | | | | |
| At 1 August 2010 | – | 404 | 13 | 417 |
| Disposal | – | (404) | (13) | (417) |
| **At 31 July 2011** | **–** | **–** | **–** | **–** |
| **Carrying amount** | | | | |
| At 1 August 2010 | 750 | 3,000 | 23 | 3,773 |
| **At 31 July 2011** | **–** | **–** | **–** | **–** |

## 13. CAPITAL AND RESERVES

| Group and Company | Amount 2011 RM'000 | Number of shares 2011 '000 | Amount 2010 RM'000 | Number of shares 2010 '000 |
|---|---|---|---|---|
| Authorised: | | | | |
| Ordinary shares of RM0.10 each | | | | |
| At 1 August | **200,000** | **2,000,000** | 200,000 | 2,000,000 |
| Creation of shares | **100,000** | **1,000,000** | – | – |
| At 31 July | **300,000** | **3,000,000** | 200,000 | 2,000,000 |
| Issued and fully paid: | | | | |
| Ordinary shares of RM0.10 each | | | | |
| At 1 August | **165,797** | **1,657,968** | 90,296 | 902,956 |
| Renounceable rights issue | **–** | **–** | 36,416 | 364,163 |
| Bonus issue | **–** | **–** | 38,237 | 382,371 |
| Private placement | **16,670** | **166,698** | – | – |
| Issue of shares pursuant to the acquisition of AME | **14,925** | **149,254** | – | – |
| Issue of shares under Employees' Share Option Scheme ("ESOS") | **1,385** | **13,846** | 848 | 8,478 |
| At 31 July | **198,777** | **1,987,766** | 165,797 | 1,657,968 |

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

Increase in authorised share capital

On 24 June 2011, the Company increased its authorised share capital via the creation of 1,000,000,000 ordinary shares of RM0.10 each in the Company resulting in an enlarged authorised share capital of RM300,000,000, comprising 3,000,000,000 ordinary shares of RM0.10 each.

Increase in issued and fully paid-up share capital

During the year, the issued and paid-up share capital of the Company was increased by RM32,980,000 (2010: RM75,501,000) by way of allotment and issue of shares as follows:

Private placement

On 7 February 2011, the Company increased its issued and paid up share capital through the private placement of 166,698,000 new ordinary shares of RM0.10 each ("placement shares") at an issue price of RM2.38 per placement share to eligible investors.

Acquisition of Allied Marine & Equipment Sdn. Bhd. and its subsidiaries

On 13 July 2011 the Company increased its issued and paid up share capital through the issuance 149,253,731 new ordinary shares of RM0.10 each to satisfy the purchase consideration of RM400.0 million for the acquisition of 100% equity interest in Allied Marine & Equipment Sdn. Bhd. at an issue price of RM2.68 per ordinary share.

## 13. CAPITAL AND RESERVES (CONTINUED)

Exercise of employees' share options ("ESOS")

During the financial year ended 31 July 2011, the Company issued:

(a) 1,704,855 new ordinary shares of RM0.10 each for cash arising from the exercise of ESOS at an exercise price of RM0.81 per ordinary share;

(b) 10,395,400 new ordinary shares of RM0.10 each for cash arising from the exercise of ESOS at an exercise price of RM0.84 per ordinary share;

(c) 66,857 new ordinary shares of RM0.10 each for cash arising from the exercise of ESOS at an exercise price of RM0.96 per ordinary share;

(d) 500,000 new ordinary shares of RM0.10 each for cash arising from the exercise of ESOS at an exercise price of RM1.27 per ordinary share;

(e) 810,714 new ordinary shares of RM0.10 each for cash arising from the exercise of ESOS at an exercise price of RM1.30 per ordinary share;

(f) 110,000 new ordinary shares of RM0.10 each for cash arising from the exercise of ESOS at an exercise price of RM1.36 per ordinary share; and

(g) 150,000 new ordinary shares of RM0.10 each for cash arising from the exercise of ESOS at an exercise price of RM1.38 per ordinary share.

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

**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.

**Translation reserve**

The translation reserve comprises all foreign currency differences arising from the translation of the financial statements of the Group entities with functional currencies other than RM.

## 14. EMPLOYEE BENEFITS

### Share-based payments

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

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

| Date of Offer | Number of options over ordinary shares of RM0.10 each | Exercise price RM | Expiry date |
|---|---|---|---|
| 06.12.2006 | 11,500,000 | 0.41 | 14.12.2007 |
| 06.12.2006 | 10,500,000 | 0.50 | 14.12.2008 |
| 10.04.2008 | 15,430,000 | 0.84 | 14.11.2011 |
| 17.09.2008 | 2,800,000 | 0.81 | 14.11.2011 |
| 21.05.2009 | 100,000 | 0.96 | 14.11.2011 |
| 13.02.2010 | 4,171,000 | 1.27 | 14.11.2011 |
| 15.06.2010 | 880,714 | 1.30 | 14.11.2011 |
| 15.09.2010 | 150,000 | 1.38 | 14.11.2011 |
| 01.10.2010 | 200,000 | 1.36 | 14.11.2011 |
| 06.05.2011 | 1,000,000 | 2.41 | 14.11.2011 |

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

| | Group Number of options | | Company Number of options | |
|---|---|---|---|---|
| | **2011** | **2010** | **2011** | **2010** |
| | **'000** | **'000** | **'000** | **'000** |
| At 1 August | **17,810** | 16,040 | **3,331** | 928 |
| Granted during the year | **1,350** | 5,052 | **150** | 2,550 |
| ESOS adjustment* | **–** | 5,618 | **–** | 324 |
| | **19,160** | 26,710 | **3,481** | 3,802 |
| Exercised during the year | **(13,738)** | (8,586) | **(1,481)** | (441) |
| Lapsed during the year | **(13)** | (314) | **–** | (30) |
| At 31 July | **5,409** | 17,810 | **2,000** | 3,331 |

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

The options outstanding as at 31 July 2011 have an exercise price of RM0.84, RM1.27, RM1.30, RM1.36 and RM2.41 and remaining contractual life of 3.5 months.

During the financial year, 13,737,826 (2010: 8,586,271) share options of the Company were exercised at the exercise prices of RM0.81, RM0.84, RM0.96, RM1.27, RM1.30, RM1.36 and RM1.38 (2010: RM0.84, RM1.35, RM1.40 and RM1.60) per option and were allotted and issued as ordinary shares of the Company. The related weighted average share price at the date of exercise was RM2.23 (2010: RM1.88) per ordinary share.

## 14. EMPLOYEE BENEFITS (CONTINUED)

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

**Fair value of share options and assumptions used**

| | Granted in 2011 | Granted in 2010 | Granted in 2009 | Granted in 2008 |
|---|---|---|---|---|
| Fair value at grant date | **RM0.37 – RM0.47** | RM0.34 – RM0.35 | RM0.30 – RM0.62 | RM0.37 – RM0.60 |
| Exercise price | **RM1.36 – RM2.41** | RM1.27 – RM1.30 | RM0.81 – RM0.96 | RM0.84 |
| Expected volatility | **39%** | 32% | 39% | 50% |
| Option life | **7 months – 1 year** | 1 – 2 years | 1 – 3 years | 1 – 3 years |
| Risk-free interest rate | **3.30%** | 2.87% – 3.06% | 3.99% | 3.77% – 3.43% |
| Expected staff turnover | **20%** | – | 15% | 15% |
| Expected dividend payout | **5%** | 5% | 5% | – |

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

**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 | |
|---|---|---|---|---|
| | 2011 RM'000 | 2010 RM'000 | 2011 RM'000 | 2010 RM'000 |
| Total expense recognised as share-based payments | **2,709** | 2,388 | **674** | 398 |

## 15. LOANS AND BORROWINGS

| | | Group 2011 RM'000 | Group 2010 RM'000 | Company 2011 RM'000 | Company 2010 RM'000 |
|---|---|---|---|---|---|
| **Non-current** | | | | | |
| Term loans | - secured | **538,719** | 30,223 | **42,075** | – |
| Hire purchase creditors | | **15,500** | 12,810 | **1,263** | 350 |
| | | **554,219** | 43,033 | **43,338** | 350 |
| **Current** | | | | | |
| Term loans | - secured | **170,560** | 108,338 | **7,650** | – |
| Bank overdrafts | - unsecured | **97,047** | 2,013 | **–** | – |
| Revolving credits | - secured | **8,196** | – | **–** | – |
| | - unsecured | **35,183** | 60,000 | **25,150** | 60,000 |
| Bankers' acceptances | - secured | **1,545** | – | **–** | – |
| | - unsecured | **2,476** | – | **–** | – |
| Foreign currency trade loan | - unsecured | **2,701** | – | **–** | – |
| Hire purchase creditors | | **16,848** | 12,492 | **401** | 100 |
| | | **334,556** | 182,843 | **33,201** | 60,100 |
| | | **888,775** | 225,876 | **76,539** | 60,450 |

***Hire purchase creditors***

Hire purchase creditors are payable as follows:

| | Gross 2011 RM'000 | Interest 2011 RM'000 | Principal 2011 RM'000 | Gross 2010 RM'000 | Interest 2010 RM'000 | Principal 2010 RM'000 |
|---|---|---|---|---|---|---|
| ***Group*** | | | | | | |
| Less than one year | **19,114** | **(2,266)** | **16,848** | 14,513 | (2,021) | 12,492 |
| Between one and five years | **17,343** | **(1,843)** | **15,500** | 14,767 | (1,957) | 12,810 |
| | **36,457** | **(4,109)** | **32,348** | 29,280 | (3,978) | 25,302 |
| ***Company*** | | | | | | |
| Less than one year | **461** | **(60)** | **401** | 116 | (16) | 100 |
| Between one and five years | **1,449** | **(186)** | **1,263** | 407 | (57) | 350 |
| | **1,910** | **(246)** | **1,664** | 523 | (73) | 450 |

## 15. LOANS AND BORROWINGS (CONTINUED)

***Security***

At 31 July 2011 and 31 July 2010, the secured term loans of the Group are charged against the subsidiaries' buildings and structures, leasehold land, vessels and tender assisted drilling rig (Note 3), mortgage and deed of covenant and related insurances, deposits placed with licensed banks (Note 11) and a corporate guarantee by the Company.

At 31 July 2011, the revolving credit and bankers' acceptance of the Group are secured by fixed deposits with licensed banks and are guaranteed by the Company.

## 16. DEFERRED TAX LIABILITIES

Recognised deferred tax assets and liabilities

Deferred tax assets and liabilities are attributable to the following:

| | Assets | | Liabilities | | Net | |
|---|---|---|---|---|---|---|
| **Group** | **2011 RM'000** | **2010 RM'000** | **2011 RM'000** | **2010 RM'000** | **2011 RM'000** | **2010 RM'000** |
| Property, plant and equipment | | | | | | |
| - Temporary differences | **–** | – | **32,961** | 14,339 | **32,961** | 14,339 |
| - Fair value adjustment in relation to acquisition of subsidiaries | **–** | – | **21,564** | 13,403 | **21,564** | 13,403 |
| Unabsorbed capital allowances | **(8,295)** | (480) | **–** | – | **(8,295)** | (480) |
| Tax loss carry-forwards | **(59)** | – | **–** | – | **(59)** | – |
| Provisions | **(2,867)** | (458) | **–** | – | **(2,867)** | (458) |
| Others | **(467)** | (464) | **–** | – | **(467)** | (464) |
| Tax (assets)/liabilities | **(11,688)** | (1,402) | **54,525** | 27,742 | **42,837** | 26,340 |
| Set off | **9,575** | 1,328 | **(9,575)** | (1,328) | **–** | – |
| Net tax (assets)/ liabilities | **(2,113)** | (74) | **44,950** | 26,414 | **42,837** | 26,340 |

## 16. DEFERRED TAX LIABILITIES (CONTINUED)

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

**Movement in temporary differences during the year**

| Group | At 1.8.2009 RM'000 | Recognised in profit or loss (Note 23) RM'000 | At 31.7.2010 RM'000 | Recognised in profit or loss (Note 23) RM'000 | Acquisition of a subsidiary (Note 32) RM'000 | Included in disposal group held for sale (Note 12) RM'000 | At 31.7.2011 RM'000 |
|---|---|---|---|---|---|---|---|
| Property, plant and equipment | | | | | | | |
| - temporary differences | 12,389 | 1,950 | 14,339 | 16,060 | 2,639 | (77) | **32,961** |
| - fair value adjustment in relation to acquisition of subsidiary | 13,536 | (133) | 13,403 | (479) | 8,640 | – | **21,564** |
| Unabsorbed capital allowances | (480) | – | (480) | (7,815) | – | – | **(8,295)** |
| Tax loss carry-forwards | – | – | – | (59) | – | – | **(59)** |
| Provisions | – | (458) | (458) | (2,409) | – | – | **(2,867)** |
| Others | (598) | 134 | (464) | (3) | – | – | **(467)** |
| | 24,847 | 1,493 | 26,340 | 5,295 | 11,279 | (77) | **42,837** |

**Unrecognised deferred tax assets**

Deferred tax assets have not been recognised in respect of the following items (stated at gross):

| Group | 2011 RM'000 | 2010 RM'000 |
|---|---|---|
| Property, plant and equipment | **–** | 17,137 |
| Unabsorbed capital allowance | **(64)** | (17,262) |
| Tax loss carry-forwards | **(1,401)** | – |
| | **(1,465)** | (125) |

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

## 17. TRADE AND OTHER PAYABLES

| | | Group | | Company | |
|---|---|---|---|---|---|
| | | 2011 | 2010 | 2011 | 2010 |
| | Note | RM'000 | RM'000 | RM'000 | RM'000 |
| **Current** | | | | | |
| **Trade** | | | | | |
| Trade payables | | **280,497** | 113,718 | **–** | – |
| Amount due to contract customers (Note 10) | | **225,048** | 208,130 | **–** | – |
| Contract advances | a | **25,459** | – | **–** | – |
| Amounts due to associates | b | **505** | 1,462 | **–** | – |
| | | **531,509** | 323,310 | **–** | – |
| **Non-trade** | | | | | |
| Other payables | | **27,072** | 10,430 | **1,220** | 827 |
| Accrued expenses | | **40,559** | 28,945 | **5,573** | 726 |
| Amount due to subsidiaries | c | **–** | – | **44,866** | 35,788 |
| | | **67,631** | 39,375 | **51,659** | 37,341 |
| | | **599,140** | 362,685 | **51,659** | 37,341 |

**Note a**

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

**Note b**

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

**Note c**

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

## 18. REVENUE AND COSTS OF SERVICES RENDERED

| | Group | | Company | |
|---|---|---|---|---|
| | 2011 | 2010 | 2011 | 2010 |
| **Revenue** | RM'000 | RM'000 | RM'000 | RM'000 |
| Contract revenue | **1,277,303** | 1,072,215 | **–** | – |
| Offshore drilling, chartered vessel, ship management and equipment rental income | **215,346** | 17,470 | **–** | – |
| Management fees | **–** | 405 | **10,500** | 6,583 |
| Rental income | **–** | – | **998** | – |
| Dividend income | **–** | – | **–** | 24,637 |
| | **1,492,649** | 1,090,090 | **11,498** | 31,220 |

## 18. REVENUE AND COSTS OF SERVICES RENDERED (CONTINUED)

| Costs of services rendered | Group 2011 RM'000 | Group 2010 RM'000 | Company 2011 RM'000 | Company 2010 RM'000 |
|---|---|---|---|---|
| Construction cost | **984,692** | 840,770 | **–** | – |
| Cost of services | **138,238** | 9,523 | **–** | – |
| | **1,122,930** | 850,293 | **–** | – |

## 19. PROFIT/(LOSS) FOR THE YEAR

| | Group 2011 RM'000 | Group 2010 RM'000 | Company 2011 RM'000 | Company 2010 RM'000 |
|---|---|---|---|---|
| **Profit/(Loss) for the year is arrived at after charging:** | | | | |
| Auditors' remuneration | **570** | 320 | **50** | 30 |
| Depreciation of property, plant and equipment | **66,029** | 23,351 | **1,622** | 227 |
| Impairment loss on | | | | |
| - Trade receivables | **93** | 1,506 | **–** | – |
| - Prepayments and other assets | **–** | 19 | **–** | – |
| - Other receivables | **132** | – | **–** | – |
| - Goodwill | **84** | – | **–** | – |
| Loss on disposal of property, plant and equipment | **1** | 114 | **1** | 76 |
| Loss on disposal of an associate | **–** | 181 | **–** | – |
| Property, plant and equipment written off | **415** | 393 | **29** | 131 |
| Personnel expenses: | | | | |
| - Contributions to Employees Provident Fund | **4,982** | 6,574 | **456** | 298 |
| - Wages, salaries and others | **72,770** | 72,986 | **4,285** | 2,707 |
| Net unrealised loss on foreign exchange | **1,592** | 948 | **–** | – |
| Net realised gain on foreign exchange | **653** | – | **–** | – |
| Rental expense | | | | |
| - Premises | **4,371** | 1,154 | **6** | 163 |
| - Equipment | **9,475** | 1,592 | **41** | 15 |
| - Vehicles | **116** | 185 | **15** | 21 |
| - Staff quarter | **486** | 307 | **–** | – |
| Share based payments | **2,709** | 2,388 | **674** | 398 |
| **and after crediting:** | | | | |
| Rental income | **110** | 393 | **998** | – |
| Gain on disposal of property, plant and equipment | **344** | 2,557 | **–** | – |
| Gain on disposal of assets classified as held for sale | **207** | – | **–** | – |
| Gain on disposal of redeemable preference shares | **–** | 2,274 | **–** | – |
| Gain on bargain purchase of a subsidiary | **12,901** | – | **–** | – |
| Gain on deemed disposal of associate | **496** | – | **–** | – |
| Net realised gain on foreign exchange | **–** | 416 | **4** | – |
| Reversal of impairment loss on trade receivables | **112** | 1,833 | **–** | – |

## 20. KEY MANAGEMENT PERSONNEL COMPENSATION

| | Group | | Company | |
|---|---|---|---|---|
| | **2011** | **2010** | **2011** | **2010** |
| | **RM'000** | **RM'000** | **RM'000** | **RM'000** |
| Directors: | | | | |
| - Fees | **260** | 180 | **230** | 180 |
| - Contribution to Employees Provident Fund | **725** | 494 | **578** | 149 |
| - Remuneration | **8,181** | 5,223 | **6,969** | 2,090 |
| - Other short term employee benefits | **34** | 36 | **–** | – |
| | **9,200** | 5,933 | **7,777** | 2,419 |

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

## 21. FINANCE INCOME

| | Group | | Company | |
|---|---|---|---|---|
| | **2011** | **2010** | **2011** | **2010** |
| | **RM'000** | **RM'000** | **RM'000** | **RM'000** |
| Interest income of financial assets that are not at fair value through profit or loss: | | | | |
| - cash and cash equivalents | **9,342** | 5,154 | **4,966** | 793 |
| - amount due from subsidiaries | **–** | – | **473** | – |
| | **9,342** | 5,154 | **5,439** | 793 |

## 22. FINANCE COSTS

| | Group | | Company | |
|---|---|---|---|---|
| | **2011** | **2010** | **2011** | **2010** |
| | **RM'000** | **RM'000** | **RM'000** | **RM'000** |
| Finance cost of financial liabilities that are not at fair value through profit or loss: | | | | |
| - hire purchase | **2,519** | 2,319 | **48** | – |
| - overdrafts | **907** | 15 | **–** | – |
| - revolving credit | **2,338** | 4,080 | **2,093** | 2,093 |
| - term loans | **16,896** | 4,572 | **473** | – |
| Other finance costs | **421** | 490 | **–** | – |
| | **23,081** | 11,476 | **2,614** | 2,093 |

## 23. TAX EXPENSE

| | Group | | Company | |
|---|---|---|---|---|
| | **2011** | **2010** | **2011** | **2010** |
| **Income tax expense** | **RM'000** | **RM'000** | **RM'000** | **RM'000** |
| Malaysia | | | | |
| - current year | **45,152** | 35,015 | **–** | 5,637 |
| - (over)/under provision in prior year | **(668)** | (2,467) | **–** | – |
| | **44,484** | 32,548 | **–** | 5,637 |
| Foreign/Withholding tax | | | | |
| - current year | **–** | 1,581 | **–** | – |
| **Deferred tax expense** | | | | |
| Origination of temporary differences | **3,687** | 1,698 | **–** | – |
| Under/(Over) provision in prior year | **1,608** | (205) | **–** | – |
| | **5,295** | 1,493 | **–** | – |
| Total tax expense | **49,779** | 35,622 | **–** | 5,637 |
| **Reconciliation of tax expense** | | | | |
| Profit/(Loss) before tax | **272,957** | 171,820 | **(9,660)** | 19,845 |
| Income tax using Malaysian tax rate of 25% | **68,239** | 42,955 | **(2,415)** | 4,961 |
| Effect of different tax rate in subsidiaries* | **(10,399)** | (1,448) | **–** | – |
| Non-deductible expenses | **6,683** | 3,982 | **2,415** | 676 |
| Non-taxable income** | **(3,662)** | (1,193) | **–** | – |
| Tax incentives | **–** | (722) | **–** | – |
| Movement of unrecognised deferred tax | **335** | 125 | **–** | – |
| Utilisation of reinvestment allowance | **(11,607)** | (6,971) | **–** | – |
| Withholding tax | **–** | 1,581 | **–** | – |
| Crystallisation of deferred tax liabilities on fair value adjustment in relation to acquisition of subsidiaries | **(399)** | (133) | **–** | – |
| Others | **(351)** | 118 | **–** | – |
| | **48,839** | 38,294 | **–** | 5,637 |
| (Over)/Under provision in prior year | | | | |
| - Malaysia tax expense | **(668)** | (2,467) | **–** | – |
| - Deferred tax expense | **1,608** | (205) | **–** | – |
| Tax expense | **49,779** | 35,622 | **–** | 5,637 |

* The corporate tax expense for Kencana Marine Rig 1 (Labuan) Pte. Ltd., Gemia (Labuan) Pte. Ltd., Redang (Labuan) Pte. Ltd., Allied Support Corporation and AME Corporation, is RM20,000 based on the Labuan Business Activity Tax Act, 1990 for a corporation incorporated in the Federal Territory of Labuan.

The corporate tax rate for Kencana Marine Rig 1 Pte Ltd., a subsidiary of Kencana Petroleum Ventures Sdn. Bhd. is 17% based on the Singapore Income Tax Act.

** Included in non-taxable income is the tax effect of gain on bargain purchase of a subsidiary of RM3,225,000.

## 24. DIVIDENDS

Dividends recognised by the Company are:

| | Per share (single tier) | Total amount RM'000 | Date of payment |
|---|---|---|---|
| **2011** | | | |
| First and final 2010 ordinary | **5%** | **8,335** | **18 February 2011** |
| **2010** | | | |
| First and final 2009 ordinary | 5% | 4,550 | 15 January 2010 |

The Directors do not recommend any dividend to be paid for the financial year under review.

## 25. 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 | |
|---|---|---|
| | **2011 RM'000** | **2010 RM'000** |
| Profit for the year attributable to ordinary equity holders | **223,102** | 136,166 |

***Weighted average number of ordinary shares***

| | Group | |
|---|---|---|
| | **2011 RM'000** | **2010 RM'000** |
| Weighted average number of ordinary share in issue* | **1,747,945** | 1,264,974 |
| Effect of ordinary shares issued under ESOS | **7,433** | 5,550 |
| | **1,755,378** | 1,270,524 |
| Basic earnings per ordinary share (in sen) | **12.71** | 10.72 |

## 25. EARNINGS PER ORDINARY SHARE (CONTINUED)

***Diluted earnings per ordinary 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 | |
|---|---|---|
| | **2011** | **2010** |
| | **RM'000** | **RM'000** |
| Profit for the year attributable to ordinary equity holders | **223,102** | 136,166 |
| ***Weighted average number of ordinary shares (diluted)*** | | |
| Weighted average number of ordinary shares in issue* (as per above) | **1,755,378** | 1,270,524 |
| Effect of share options in issue | **2,783** | 7,439 |
| | **1,758,161** | 1,277,963 |

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 | |
|---|---|---|
| | **2011** | **2010** |
| Diluted earnings per ordinary share (in sen) | **12.69** | 10.66 |

* The weighted average number of ordinary shares in issue as at 31 July 2011 is arrived at after accounting for the effects of the private placement which was completed on 7 February 2011 and shares issued pursuant to the acquisition of AME which was completed on 13 July 2011.

## 26. SEGMENTAL REPORTING

### Operating segments

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

- Investment holding
- Engineering, procurement, construction (fabrication), installation and commissioning ("EPCIC"), marine engineering, design engineering and project management
- Offshore drilling and provision of marine transportation and support services including hook-up and commissioning ("HUC") and subsea services
- Development and production of petroleum resources

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

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

Inter-segment pricing is determined based on negotiated terms.

### Segment assets

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

### Segment liabilities

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

### Geographical segments

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

### Major customers

Revenue of approximately RM567,159,000 (2010: RM340,921,000) representing 38% (2010: 31%) of the Group revenue is derived from two external customers from the following segments:

| | **2011 RM'000** | **2010 RM'000** |
|---|---|---|
| EPCIC, marine engineering, design engineering & project management | **399,559** | 300,447 |
| Offshore drilling & marine transportation services, HUC & subsea services | **167,600** | 40,474 |
| | **567,159** | 340,921 |

## 26. SEGMENTAL REPORTING (CONTINUED)

| 2011 | Investment holding RM'000 | EPCIC, marine engineering, design engineering & project management RM'000 | Offshore drilling & marine transportation services, HUC & subsea services RM'000 | Development & production of petroleum resources RM'000 | Total RM'000 | Elimination RM'000 | Consolidated RM'000 |
|---|---|---|---|---|---|---|---|
| **Business segments** | | | | | | | |
| Total external revenue | – | 1,104,295 | 388,354 | – | 1,492,649 | – | 1,492,649 |
| Inter-segment revenue | 11,498 | 323,051 | 367 | – | 334,916 | (334,916) | – |
| **Total segment revenue** | 11,498 | 1,427,346 | 388,721 | – | 1,827,565 | (334,916) | 1,492,649 |
| Finance costs | (2,614) | (3,587) | (17,353) | – | (23,554) | 473 | (23,081) |
| Interest income | 5,439 | 4,095 | 281 | – | 9,815 | (473) | 9,342 |
| Depreciation of property, plant and equipment | (1,622) | (22,299) | (40,721) | – | (64,642) | (1,387) | (66,029) |
| Share of profit of associates | – | 128 | – | – | 128 | – | 128 |
| Share of profit of jointly controlled entities | – | 2 | – | – | 2 | – | 2 |
| Income tax expense | – | (40,809) | (9,473) | – | (50,282) | 503 | (49,779) |
| **Segment results** | (9,660) | 156,760 | 72,995 | (499) | 219,596 | 3,582 | 223,178 |
| **Segment assets** | 1,301,614 | 1,225,511 | 1,403,431 | 136,777 | 4,067,333 | (766,177) | 3,301,156 |
| *Included in the measurement of segment assets are:* | | | | | | | |
| Investments in associates | – | 2,137 | – | – | 2,137 | – | 2,137 |
| Investments in jointly controlled entities | – | 6 | – | – | 6 | – | 6 |
| Capital expenditure | 13,462 | 121,757 | 176,061 | – | 311,280 | – | 311,280 |
| **Segment liabilities** | 128,198 | 585,222 | 978,831 | 138,509 | 1,830,760 | (286,045) | 1,544,715 |

## 26. SEGMENTAL REPORTING (CONTINUED)

| 2010 | Investment holding RM'000 | EPCIC, marine engineering, design engineering & project management RM'000 | Marine transportation services, HUC RM'000 | Total RM'000 | Elimination RM'000 | Consolidated RM'000 |
|---|---|---|---|---|---|---|
| **Business segments** | | | | | | |
| Total external revenue | – | 923,438 | 166,652 | 1,090,090 | – | 1,090,090 |
| Inter-segment revenue | 31,220 | 161,078 | 2,514 | 194,812 | (194,812) | – |
| **Total segment revenue** | 31,220 | 1,084,516 | 169,166 | 1,284,902 | (194,812) | 1,090,090 |
| Finance costs | (2,093) | (5,722) | (3,661) | (11,476) | – | (11,476) |
| Interest income | 793 | 4,287 | 74 | 5,154 | – | 5,154 |
| Depreciation of property, plant and equipment | (227) | (18,383) | (4,230) | (22,840) | (511) | (23,351) |
| Share of profit/ (loss) of associates | – | 187 | (1,032) | (845) | – | (845) |
| Share of loss of jointly controlled entities | – | (5) | – | (5) | – | (5) |
| Income tax expense | (5,637) | (29,346) | (6,713) | (41,696) | 6,074 | (35,622) |
| **Segment results** | 14,208 | 127,089 | 23,399 | 164,696 | (28,498) | 136,198 |
| **Segment assets** | 481,414 | 912,438 | 469,011 | 1,862,863 | (487,767) | 1,375,096 |
| *Included in the measurement of segment assets are:* | | | | | | |
| Investments in associates | – | 2,009 | 51,848 | 53,857 | – | 53,857 |
| Investments in jointly controlled entities | – | 4 | – | 4 | – | 4 |
| Capital expenditure | 2,000 | 59,303 | 146,902 | 208,205 | – | 208,205 |
| **Segment liabilities** | 97,791 | 497,612 | 430,444 | 1,025,847 | (406,136) | 619,711 |

## 27. FINANCIAL INSTRUMENTS

Certain comparative figures have not been presented for 31 July 2010 by virtue of the exemption given in paragraph 44AA of FRS 7.

### 27.1 Categories of financial instruments

The table below provides an analysis of financial instruments categorised as follows:

(a) Loans and receivables (L&R); and
(b) Other financial liabilities measured at amortised cost (OL).

| | Carrying amount RM'000 |
|---|---|
| **2011** | |
| **Financial assets categorised as L&R** | |
| **Group** | |
| Trade and other receivables | 469,858 |
| Cash and cash equivalents | 827,810 |
| | 1,297,668 |
| **Company** | |
| Trade and other receivables | 106,811 |
| Cash and cash equivalents | 288,511 |
| | 395,322 |
| **2011** | |
| **Financial liabilities categorised as OL** | |
| **Group** | |
| Loans and borrowings | (888,775) |
| Trade and other payables | (348,633) |
| | (1,237,408) |
| **Company** | |
| Loans and borrowings | (76,539) |
| Trade and other payables | (51,659) |
| | (128,198) |

**27. FINANCIAL INSTRUMENTS (CONTINUED)**

**27.2 Net gains and losses arising from financial instruments**

| | Group 2011 RM'000 | Company 2011 RM'000 |
|---|---|---|
| Net (losses)/gains arising on: | | |
| Loans and receivables | 8,319 | 5,439 |
| Financial liabilities measured at amortised cost | (23,077) | (2,610) |
| | (14,758) | 2,829 |

**27.3 Financial risk management**

The Group has exposure to the following risks from its use of financial instruments:

- Credit risk
- Liquidity risk
- Market risk

**27.4 Credit risk**

Credit risk is the risk of a financial loss to the Group if a customer or counterparty to a financial instrument fails to meet its contractual obligations. The Group's exposure to credit risk arises principally from its receivables from customers.

**Receivables**

*Risk management objectives, policies and processes for managing the risk*

Management has a credit policy in place and the exposure to credit risk is monitored on an ongoing basis. Credit evaluations are performed on customers requiring credit over a certain amount.

*Exposure to credit risk, credit quality and collateral*

As at the end of the reporting period, the maximum exposure to credit risk arising from receivables is represented by the carrying amounts in the statement of financial position.

As at the end of reporting period, approximately 66% of the Group's trade receivables are from 3 major customers with good credit history with the Group. The maximum exposure to credit risk is represented by the carrying amount in the statement of financial position.

Management has taken reasonable steps to ensure that receivables that are neither past due nor impaired are measured at their realisable values. A significant portion of these receivables are regular customers that have been transacting with the Group. The Group uses ageing analysis to monitor the credit quality of the receivables. Any receivables having significant balances past due more than 120 days, which are deemed to have higher credit risk, are monitored individually.

## 27. FINANCIAL INSTRUMENTS (CONTINUED)

### 27.4 Credit risk (continued)

*Impairment losses*

The ageing of trade receivables as at the end of the reporting period was:

| Group | Gross RM'000 | Individual impairment RM'000 | Net RM'000 |
|---|---|---|---|
| **2011** | | | |
| Not past due | 293,656 | – | 293,656 |
| Past due 1 – 90 days | 36,823 | – | 36,823 |
| Past due 91 -120 days | 1,286 | – | 1,286 |
| Past due more than 120 days | 20,565 | (3,371) | 17,194 |
| | 352,330 | (3,371) | 348,959 |
| Retention sum | | | |
| Not past due | 14,406 | – | 14,406 |
| Past due more than 120 days | 363 | – | 363 |
| | 367,099 | (3,371) | 363,728 |

No allowance for impairment losses of trade receivables has been made for the remaining past due receivables as the Group monitors the repayments of these customers regularly and are confident of the ability of the customers to repay the balances owing.

The movements in the allowance for impairment losses of receivables during the financial year were:

| | Group 2011 RM'000 |
|---|---|
| At 1 August | 3,848 |
| Impairment loss recognised | 93 |
| Impairment loss reversed | (112) |
| Impairment loss written off | (458) |
| At 31 July | 3,371 |

The allowance account in respect of receivables is used to record impairment losses. Unless the Group is satisfied that recovery of the amount is possible, the amount considered irrecoverable is written off against the receivable directly.

## 27. FINANCIAL INSTRUMENTS (CONTINUED)

### 27.4 Credit risk (continued)

**Financial guarantees**

*Risk management objectives, policies and processes for managing the risk*

The Company provides unsecured financial guarantees to banks in respect of credit facilities granted to certain subsidiaries and an associate.

The Company monitors on an ongoing basis the results of and repayments made by the subsidiaries and associate.

*Exposure to credit risk, credit quality and collateral*

As at the end of the reporting period, the maximum exposure to credit risk as represented by the outstanding banking and credit facilities of the Group is as follows:

| | Group | |
|---|---|---|
| | **2011 RM'000** | **2010 RM'000** |
| Corporate guarantees to licensed banks for credit facilities granted to subsidiaries | **457,763** | 145,552 |
| Corporate guarantees to licensed banks for credit facilities granted to an associate | **1,500** | 1,500 |
| | **459,263** | 147,052 |

As at the end of the reporting period, there was no indication that the subsidiaries or associates would default on repayment.

The financial guarantees have not been recognised since the fair value on initial recognition was nil.

**Inter company balances**

*Risk management objectives, policies and processes for managing the risk*

The Company provides unsecured loans and advances to subsidiaries. The Company monitors the results of the subsidiaries regularly.

Exposure to credit risk, credit quality and collateral

As at the end of the reporting period, the maximum exposure to credit risk is represented by their carrying amounts in the statement of financial position.

*Impairment losses*

As at the end of the reporting period, there was no indication that the loans and advances to the subsidiaries are not recoverable. The Company does not specifically monitor the ageing of the advances to the subsidiaries.

## 27. FINANCIAL INSTRUMENTS (CONTINUED)

### 27.5 Liquidity risk

Liquidity risk is the risk that the Group will not be able to meet its financial obligations as they fall due. The Group's exposure to liquidity risk arises principally from its various payables, loans and borrowings.

The Group maintains a level of cash and cash equivalents and bank facilities deemed adequate by the management to ensure, as far as possible, that it will have sufficient liquidity to meet its liabilities when they fall due.

*Maturity analysis*

The table below summarises the maturity profile of the Group's and the Company's financial liabilities as at the end of the reporting period based on undiscounted contractual payments:

| Group | Carrying amount RM'000 | Contractual interest rate/ coupon | Contractual cash flows RM'000 | Under 1 year RM'000 | 1 - 2 years RM'000 | 2 – 5 years RM'000 | More than 5 years RM'000 |
|---|---|---|---|---|---|---|---|
| **2011** | | | | | | | |
| *Non-derivative financial liabilities* | | | | | | | |
| Secured term loans | 709,279 | 5.00% – 7.60% | 964,265 | 202,782 | 117,248 | 462,933 | 181,302 |
| Hire purchase liabilities | 32,348 | 1.98% – 6.50% | 36,457 | 19,114 | 12,433 | 4,694 | 216 |
| Bank overdraft | 97,047 | 8.00% | 97,047 | 97,047 | – | – | – |
| Revolving credit | 43,379 | 2.80% – 6.00% | 43,379 | 43,379 | – | – | – |
| Banker's acceptance | 4,021 | 3.85% – 4.65% | 4,021 | 4,021 | – | – | – |
| Foreign currency trade loan | 2,701 | 2.11% | 2,701 | 2,701 | – | – | – |
| Trade and other payables | 348,633 | | 348,633 | 348,633 | – | – | – |
| | 1,237,408 | | 1,496,503 | 717,677 | 129,681 | 467,627 | 181,518 |

## 27. FINANCIAL INSTRUMENTS (CONTINUED)

### 27.5 Liquidity risk (continued)

*Maturity analysis (continued)*

| Company | Carrying amount RM'000 | Contractual interest rate/ coupon | Contractual cash flows RM'000 | Under 1 year RM'000 | 1 - 2 years RM'000 | 2 – 5 years RM'000 | More than 5 years RM'000 |
|---|---|---|---|---|---|---|---|
| **2011** | | | | | | | |
| *Non-derivative financial liabilities* | | | | | | | |
| Secured term loans | 49,725 | 5.59% | 52,505 | 8,078 | 8,078 | 8,078 | 28,271 |
| Hire purchase liabilities | 1,664 | 2.45% - 3.25% | 1,910 | 461 | 461 | 988 | – |
| Revolving credit | 25,150 | 6.00% | 25,150 | 25,150 | – | – | – |
| Trade and other payables | 51,659 | | 51,659 | 51,659 | – | – | – |
| | 128,198 | | 131,224 | 85,348 | 8,539 | 9,066 | 28,271 |

### 27.6 Market risk

Market risk is the risk that changes in market prices, such as foreign exchange rates, interest rates and other prices that will affect the Group's financial position or cash flows.

#### 27.6.1 Currency risk

The Group is exposed to foreign currency risk on sales and purchases that are denominated in a currency other than the respective functional currencies of Group entities. The currencies giving rise to this risk are primarily U.S. Dollar (USD), Great Britain Pound (GBP), Euro Dollar (EUR) and Singapore Dollar (SGD).

*Risk management objectives, policies and processes for managing the risk*

The Group does not use any forward contracts to hedge against its exposure to foreign currency risk as the foreign exchange exposures in transactional currencies other than functional currency of the Group are kept to an acceptable level.

## 27. FINANCIAL INSTRUMENTS (CONTINUED)

### 27.6 Market risk (continued)

#### 27.6.1 Currency risk (continued)

*Exposure to foreign currency risk*

The Group's exposure to foreign currency (a currency which is other than the currency of the Group entities) risk, based on carrying amounts as at the end of the reporting period was:

| | Denominated in | | | | |
|---|---|---|---|---|---|
| | ***USD*** | ***GBP*** | ***EUR*** | ***SGD*** | ***Total*** |
| **Group** | **RM'000** | **RM'000** | **RM'000** | **RM'000** | **RM'000** |
| **2011** | | | | | |
| Trade and other receivables | 89,236 | 56 | 51 | 1,071 | 90,414 |
| Trade and other payables | (37,437) | (927) | (3,395) | (774) | (42,533) |
| Secured term loans | (413,544) | – | – | – | (413,544) |
| Foreign currency trade loan | (2,701) | – | – | – | (2,701) |
| Cash and cash equivalents | 169,546 | 3,079 | 43 | 30 | 172,698 |
| | (194,900) | 2,208 | (3,301) | 327 | (195,666) |

*Currency risk sensitivity analysis*

A 10 percent strengthening of the RM against the following currencies at the end of the reporting period would have increased (decreased) post-tax profit or loss by the amounts shown below. This analysis assumes that all other variables, in particular interest rates, remained constant and ignores any impact of forecasted sales and purchases.

| **Group** | **Equity RM'000** | **Profit or loss RM'000** |
|---|---|---|
| **2011** | | |
| *USD* | 26,225 | (11,608) |
| *GBP* | – | (166) |
| *EUR* | – | 248 |
| *SGD* | – | (25) |

A 10 percent weakening of RM against the above currencies at the end of the reporting period would have had equal but opposite effect on the above currencies to the amounts shown above, on the basis that all other variables remain constant.

## 27. FINANCIAL INSTRUMENTS (CONTINUED)

### 27.6 Market risk (continued)

#### 27.6.2 Interest rate risk

The Group and the Company's primary interest rate risks relate to borrowings and deposits with licensed banks. Deposits with licensed banks with fixed rate are exposed to a risk of change in their fair value due to changes in interest rates. The Group and the Company's variable rate borrowings are exposed to a risk of change in cash flows due to changes in interest rates. Short term receivables and payables are not significantly exposed to interest rate risk.

*Exposure to interest rate risk*

The interest rate profile of the Group's and the Company's significant interest-bearing financial instruments, based on carrying amounts as at the end of the reporting period were:

| | Group | | Company | |
|---|---|---|---|---|
| | **2011 RM'000** | **2010 RM'000** | **2011 RM'000** | **2010 RM'000** |
| **Fixed rate instruments** | | | | |
| Financial assets | | | | |
| Deposits places with licensed banks | **687,568** | 72,786 | **279,200** | 10,245 |
| Financial liabilities | | | | |
| Hire purchase creditors | **32,348** | 25,302 | **1,664** | 450 |
| **Floating rate instruments** | | | | |
| Financial assets | | | | |
| Amounts due from subsidiaries | **–** | – | **54,871** | – |
| Financial liabilities | | | | |
| Secured term loans | **709,279** | 138,561 | **49,725** | – |
| Bank overdrafts | **97,047** | 2,013 | **–** | – |
| Revolving credit | **43,379** | 60,000 | **25,150** | 60,000 |
| Banker's acceptance | **4,021** | – | **–** | – |
| Foreign currency term loan | **2,701** | – | **–** | – |

***Interest rate risk sensitivity analysis***

*Fair value sensitivity analysis for fixed rate instruments*

The Group does not account for any fixed rate financial assets and liabilities at fair value through profit or loss. Therefore, a change in interest rates at the end of the reporting period would not affect profit or loss.

*Fair value sensitivity analysis for variable rate instruments*

A change of 100 basis points (bp) in interest rates at the end of the reporting period would have increased (decreased) post-tax profit or loss by the amounts shown below. This analysis assumes that all other variables, in particular foreign currency rates, remain constant.

## 27. FINANCIAL INSTRUMENTS (CONTINUED)

### 27.6 Market risk (continued)

#### 27.6.2 Interest rate risk (continued)

***Interest rate risk sensitivity analysis (continued)***

*Fair value sensitivity analysis for variable rate instruments (continued)*

| Group | Profit or loss<br>100 bp increase<br>RM'000 | <br>100 bp decrease<br>RM'000 |
|---|---|---|
| **2011** | | |
| Floating rate instruments | **(6,423)** | **6,423** |
| **2010** | | |
| Floating rate instruments | (1,504) | 1,504 |

### 27.7 Fair value of financial instruments

The carrying amounts of cash and cash equivalents, short term receivables and payables and short term borrowings approximate fair values due to the relatively short term nature of these financial instruments.

The fair values of other financial assets and liabilities, together with the carrying amounts shown in the statement of financial position, are as follows:

| | 2011<br>Carrying amount<br>RM'000 | <br>Fair value<br>RM'000 | 2010<br>Carrying amount<br>RM'000 | <br>Fair value<br>RM'000 |
|---|---|---|---|---|
| **Group** | | | | |
| Secured term loans | **709,279** | **709,279** | 138,561 | 138,561 |
| Hire purchase liabilities | **32,348** | **30,655** | 25,302 | 24,655 |
| **Company** | | | | |
| Secured term loans | **49,725** | **49,725** | – | – |
| Hire purchase liabilities | **1,664** | **1,590** | 450 | 425 |

*Non-derivative financial liabilities*

Fair value, which is determined for disclosure purposes, is calculated based on the present value of future principal and interest cash flows, discounted at the market rate of interest at the end of the reporting period.

*Interest rates used to determine fair value*

The interest rates used to discount estimated cash flows, when applicable, are as follows:

| | 2011 | 2010 |
|---|---|---|
| Hire purchase creditors | **2.48% – 6.50%** | 2.62% – 4.20% |

## 28. CAPITAL MANAGEMENT

The Group's objectives when managing capital is to maintain a strong capital base and safeguard the Group's ability to continue as a going concern, so as to maintain investor, creditor and market confidence and to sustain future development of the business. The Directors monitor and are determined to maintain an optimal debt-to-equity ratio that complies with debt covenants and regulatory requirements.

The debt-to-equity ratios at 31 July 2011 and at 31 July 2010 were as follows:

| | **Group** | |
|---|---|---|
| | **2011** | **2010** |
| | **RM'000** | **RM'000** |
| Total borrowings (Note 15) | **888,775** | 225,876 |
| Less: Cash and cash equivalents (Note 11) | **(827,810)** | (222,390) |
| Net debt | **60,965** | 3,486 |
| Total equity | **1,756,441** | 755,385 |
| Net debt-to-equity ratios | **0.03** | 0.01 |

There were no changes in the Group's approach to capital management during the financial year.

Under the requirement of Bursa Malaysia Practice Note No. 17/2005, the Company is required to maintain a consolidated shareholders' equity equal to or not less than the 25 percent of the issued and paid-up capital (excluding treasury shares) and such shareholders' equity is not less than RM40 million. The Company has complied with this requirement.

## 29. CAPITAL COMMITMENTS

| | **Group** | |
|---|---|---|
| | **2011** | **2010** |
| | **RM'000** | **RM'000** |
| Property, plant and equipment | | |
| Contracted but not provided for in the financial statements | **874,817** | 22,195 |

## 30. CONTINGENT LIABILITIES

***Litigation***

Allied Support Corporation ("ASC"), an indirect wholly owned subsidiary of the Company, received an arbitration claim on 31 July 2009 on its failure to take delivery of a pre-ordered crane at a cost of EURO 1.25 million. The estimated potential cash outlay, should the award be in favour of the claimant, would be EURO 1.125 million plus interest at the rate of 8% per annum together with any costs incurred thereof. A deposit of EURO 125,000 has been paid by ASC to the claimant and currently held by a broker in an escrow account. ASC made a counter claim against the claimant on the basis of loss and damage suffered by ASC due to the unsuitability of the crane delivered. The matter has yet to go through the arbitration proceeding.

## 31. RELATED PARTIES

***Identity of related parties***

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

The Group has a related party relationship with its subsidiaries (Note 5), associates (Note 6), joint ventures (Note 7) and its 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*

| | Transaction amount for the year ended 31 July | |
|---|---|---|
| | **2011** | **2010** |
| **Company** | **RM'000** | **RM'000** |
| Gross dividend income receivable | **–** | 24,637 |
| Management fees receivable | **10,500** | 6,583 |
| Advances to subsidiaries | **(54,871)** | (228,262) |

| | Transaction amount for the year ended 31 July | |
|---|---|---|
| | **2011** | **2010** |
| **Group** | **RM'000** | **RM'000** |
| Company in which Dato' Mokhzani bin Mahathir and/or Yeow Kheng Chew have interest: | | |
| Kencana Capital Assets Sdn. Bhd. | | |
| - Rental expenses | **6,650** | – |
| - Rental and utilities deposits | **1,790** | – |
| Strateq Networks Sdn. Bhd. (formerly known as Kompakar eNet Sdn. Bhd.) | | |
| - Acquisition of property, plant and equipment | **1,348** | – |
| Strateq Systems Sdn. Bhd. (formerly known as Kompakar eSystems Sdn. Bhd.) | | |
| - Acquisition of property, plant and equipment | **134** | – |
| Auto Eurokars Sdn. Bhd. | | |
| - Acquisition of property, plant and equipment | **–** | (1,838) |

## 31. RELATED PARTIES (CONTINUED)

***Identity of related parties (continued)***

*Significant transactions with subsidiaries (continued)*

| Group | Transaction amount for the year ended 31 July 2011 RM'000 | 2010 RM'000 |
|---|---|---|
| *Associates* | | |
| Best Wide Engineering (M) Sdn. Bhd. | | |
| - Progress billings receivable | **21,450** | 12,731 |
| - Rental income receivable | **25** | 12 |
| - Subcontract costs payable | **(14,569)** | (12,440) |
| Matrix Maintenance Sdn. Bhd. | | |
| - Progress billings receivable | **1** | 101 |
| - Subcontract costs payable | **(476)** | (216) |

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

There is no impairment losses at 31 July 2011 and 31 July 2010 in respect of the above related party balance.

The outstanding net amounts due from/(to) subsidiaries, associates, and jointly controlled entities as at 31 July are disclosed in Note 10 and Note 17 respectively.

## 32. ACQUISITIONS OF SUBSIDIARIES AND NON-CONTROLLING INTEREST

**Business combination**

<u>Acquisition of companies from Mermaid Drilling (Singapore) Pte Ltd ("MDS")</u>

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

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

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

## 32. ACQUISITIONS OF SUBSIDIARIES AND NON-CONTROLLING INTEREST (CONTINUED)

**Business combination (continued)**

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

(iii) 3 ordinary shares of USD1.00 each representing 75% equity interest in Kencana Marine Rig 1 (Labuan) Pte. Ltd. ("KMR1 Labuan") for the purchase consideration of USD3.

The acquisitions were completed on 5 August 2010.

Acquisition of Dhow Offshore Sdn. Bhd. ("DOSB")

On 24 January 2011, KNSB acquired the entire issued and paid-up share capital of Dhow Offshore Sdn. Bhd. comprising 100,000 ordinary shares of RM1.00 each for a cash consideration of RM1,000,000.

Acquisition of Kencana Energy Sdn. Bhd. ("KE")

On 18 November 2010, the Company acquired the entire issued and paid-up share capital of Kencana Energy Sdn. Bhd. (formerly known as Finest Glory Sdn. Bhd.) comprising 2 ordinary shares of RM1.00 each at par, making it a wholly-owned subsidiary of the Company.

Acquisition of Allied Marine & Equipment Sdn. Bhd. ("AME") and its subsidiaries

On 13 May 2011, the Company executed a sale and purchase agreement for the acquisition of 100% equity interest in AME for a purchase consideration of RM400.0 million, which was satisfied by the issuance of 149,253,731 new ordinary shares of RM0.10 each in the Company ("Consideration Shares") at an issue price of RM2.68 per ordinary share. The acquisition was completed on 13 July 2011 following the issuance and allotment Consideration Shares.

The following summarises the major classes of consideration transferred, and the recognised amounts of assets acquired and liabilities assumed at the acquisition dates:

| **Fair value of consideration transferred** | **RM'000** |
|---|---|
| Cash and cash equivalents* | 145,584 |
| Contingent consideration | 768 |
| Issuance of new ordinary shares of RM0.10 each | 400,000 |
| | 546,352 |

* Included in cash and cash equivalents was the deposit previously paid upon entering the shares sales agreement of RM101,129,000 (refer to Note 10f).

## 32. ACQUISITIONS OF SUBSIDIARIES AND NON-CONTROLLING INTEREST (CONTINUED)

**Identifiable assets acquired and liabilities assumed**

| | Pre-acquisition carrying amounts RM'000 | Fair value adjustments RM'000 | Recognised values on acquisition RM'000 |
|---|---|---|---|
| Property, plant and equipment ** | 810,731 | 6,217 | 816,948 |
| Intangible assets *** | – | 33,130 | 33,130 |
| Trade and other receivables | 163,773 | – | 163,773 |
| Inventories | 4,351 | – | 4,351 |
| Cash and cash equivalents | 23,596 | – | 23,596 |
| Current tax assets | 7,945 | – | 7,945 |
| Tax liabilities | (234) | – | (234) |
| Deferred tax liabilities | (2,639) | (8,640) | (11,279) |
| Trade and other payables | (391,411) | – | (391,411) |
| Loans and borrowings | (306,018) | – | (306,018) |
| Net identifiable assets # | 310,094 | 30,707 | 340,801 |

** Included in property, plant and equipment are fair value adjustments relating to the leasehold land and vessels of AME amounting to RM6,217,000.

*** Included in intangible assets is fair value adjustments relating to customer contracts of AME.

# The pre-acquisition carrying amounts were determined based on applicable FRSs immediately before the acquisition.

**Net cash arising from acquisition of subsidiaries**

| | RM'000 |
|---|---|
| Purchase consideration settled in cash and cash equivalents excluding deposits previously paid | (44,455) |
| Cash and cash equivalents acquired | 23,596 |
| | (20,859) |

**Goodwill / Gain on bargain purchase**

Goodwill / Gain on bargain purchase were recognised on the acquisitions as follows:

| | RM'000 |
|---|---|
| Total consideration transferred | 546,352 |
| Fair value of existing interest in acquiree # | 52,322 |
| Fair value of net identifiable assets | (340,801) |
| | 257,873 |

## 32. ACQUISITIONS OF SUBSIDIARIES AND NON-CONTROLLING INTEREST (CONTINUED)

### Goodwill / Gain on bargain purchase (continued)

Goodwill / Gain on bargain purchase calculated above are attributable to the following:

| | RM'000 |
|---|---|
| Gain on bargain purchase of KMR Singapore | (12,901) |
| Goodwill on acquisition of KMR1 Labuan | 84 |
| Goodwill on acquisition of DOSB | 768 |
| Goodwill on acquisition of AME | 269,922 |
| | 257,873 |

\# The remeasurement to fair value of the Group's existing 25% interest in the acquiree resulted in a gain of RM496,000 (RM52,322,000 less RM47,155,000 carrying value of equity accounted investee at acquisition date plus RM4,671,000 of translation reserve transferred to profit and loss), which has been recognised in other operating income in the statement of comprehensive income.

The goodwill recognised is attributable mainly to the skills and technical talent of the acquired subsidiaries work force and the synergies expected to be achieved from integrating the companies into the Group's business. None of the goodwill recognised is expected to be deductible for income tax purposes.

Subsequent to the acquisition, impairment of goodwill of KMR1 Labuan of RM84,000 was charged to profit or loss.

### Acquisition-related costs

The Group incurred acquisition related cost of RM6,931,000 relating to the acquisition of KMR Singapore, KMR1 Labuan, DOSB and AME. The acquisition-related costs have been included in other operating expenses in the Group's consolidated statement of comprehensive income.

### Acquisition of non-controlling interest

The following summarises the effect of the acquisition of the non-controlling interest in KMD:

| | RM'000 |
|---|---|
| Carrying value of non-controlling interest | 32 |
| Purchase consideration | (40) |
| Effect on retained earnings | (8) |

## 32. ACQUISITIONS OF SUBSIDIARIES AND NON-CONTROLLING INTEREST (CONTINUED)

### Effect of acquisitions

During the period from the respective acquisition dates to 31 July 2011, KMR1 Labuan, KMR Singapore, DOSB and AME contributed a profit of RM49,519,000 to the Group.

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

| | 2011 RM'000 |
|---|---|
| **Statement of comprehensive income** | |
| Revenue | 168,813 |
| Cost of service rendered | (102,936) |
| Gross profit | 65,877 |
| Other income* | 16,219 |
| Administrative expenses | (20,260) |
| Results from operating activities | 61,836 |
| Finance costs | (10,257) |
| Finance income | 96 |
| Profit before tax | 51,675 |
| Taxation | (2,156) |
| Profit after tax | 49,519 |
| Increase in the Group's profit for the financial year | 49,519 |

* Included in other income is the gain on bargain purchase of a subsidiary amounting to RM12,901,000.

| | 2011 RM'000 |
|---|---|
| **Statement of financial position** | |
| Non-current assets | 839,611 |
| Non-current liabilities | (490,709) |
| Current assets | 247,666 |
| Current liabilities | (257,214) |
| Net asset acquired | 339,354 |
| Goodwill on acquisition | 270,690 |
| Fair value of customer contracts on acquisition | 33,130 |
| Increase in Group's net assets at the end of financial year | 643,174 |

## 32. ACQUISITIONS OF SUBSIDIARIES AND NON-CONTROLLING INTEREST (CONTINUED)

**Prior year acquisitions**

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

On 4 February 2010, the Group acquired the entire issued and paid-up share capital of Kencana Nautilus Sdn. Bhd. ("KNSB") comprising 2 ordinary shares of RM1.00 each fully paid at par, making it a wholly-owned subsidiary of the Group.

| **Fair value of consideration transferred** | **RM'000** |
|---|---|
| Cash and cash equivalents | 173 |

| **Identifiable assets acquired and liabilities assumed** | **RM'000** |
|---|---|
| Trade and other receivables | 4,461 |
| Cash and cash equivalents | 2 |
| Trade and other payables | (4,692) |
| Total identifiable net liabilities # | (229) |

\# The pre-acquisition carrying amounts were determined based on applicable FRSs immediately before the acquisition

| **Net cash arising from acquisition of subsidiaries** | **RM'000** |
|---|---|
| Purchase consideration settled in cash and cash equivalents | (173) |
| Cash and cash equivalents acquired | 2 |
| | (171) |

| **Goodwill** | **RM'000** |
|---|---|
| Total consideration transferred | 173 |
| Fair value of net identifiable liabilities | 229 |
| Fair value of existing interest in acquiree | 767 |
| | 1,169 |

## 33. SIGNIFICANT EVENTS

***Private Placement***

On 7 February 2011, the Company increased its issued and paid up share capital through the private placement of 166,698,000 new ordinary shares of RM0.10 each ("placement shares") at an issue price of RM2.38 per placement share to eligible investors. The size of the placement shares represented 9.08% of the issued and paid up share capital of the Company at the point of implementation of the private placement.

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

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

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

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

(iii) 3 ordinary shares of USD1.00 each representing 75% equity interest in Kencana Marine Rig 1 (Labuan) Pte. Ltd. ("KMR1 Labuan") for the purchase consideration of USD3.

The acquisitions were completed on 5 August 2010.

***Acquisition of Allied Marine & Equipment Sdn. Bhd. ("AME") and its subsidiaries***

On 13 May 2011, the Company executed a sale and purchase agreement for the acquisition of 100% equity interest in AME for a purchase consideration of RM400.0 million, which was satisfied by the issuance of 149,253,731 new ordinary shares of RM0.10 each in the Company ("Consideration Shares") at an issue price of RM2.68 per ordinary share. The acquisition was completed on 13 July 2011 following the issuance and allotment of the Consideration Shares.

***Risk Service Contract***

On 31 January 2011, Kencana Energy Sdn. Bhd. ("KE"), a wholly owned subsidiary of the Company entered into contracts for the joint development and production of an oil and gas field in Berantai, off the coast of Terengganu.

The details of the contracts entered into are as follows:

a) A Risk Service Contract ("RSC") between Petroliam Nasional Berhad ("Petronas'') and KE, Sapura Energy Ventures Sdn. Bhd. (''SEV") and Petrofac Energy Developments Sdn. Bhd. ("PED") (KE, SEV and PED are collectively referred to as "Operating Parties") for the Operating Parties to carry out the development and production of petroleum resources from Berantai field.

b) A Joint Operating Agreement ("JOA") between KE, SEV and PED for the Operating Parties to jointly develop and produce petroleum resources from the Berantai field as provided in the RSC.

## 34. SUBSEQUENT EVENTS

### *Proposed business combination*

On 11 July 2011 the Company received an offer from Integral Key Berhad ("Integral Key") to acquire the entire business and undertakings of the Company as carried on by the Company, including all its assets and liabilities as at the completion date of the disposal ("Kencana Petroleum Business") for a total consideration of RM5,979,564,078, equivalent to RM3.00 per ordinary share of the Company ("Kencana Petroleum Share") multiplied by the assumed enlarged Kencana Petroleum Shares of 1,993,188,026 ("Consideration"). The Consideration shall be satisfied by the issuance of 2,505,437,349 new Integral Key shares of RM1.00 each ("Integral Key Shares") at an issue price of RM2.00 per Integral Key Share and a cash payment of RM968,689,380.

Simultaneously Integral Key has made an offer to acquire SapuraCrest Petroleum Berhad ("SapuraCrest")'s entire business and undertakings as carried on by SapuraCrest, including all its assets and liabilities as at the completion date ("SapuraCrest Business") for a total consideration of RM5,872,923,260, equivalent to RM4.60 per ordinary share in SapuraCrest ("SapuraCrest Share") multiplied by SapuraCrest Shares of 1,276,722,448 as at 8 July 2011.

The proposed business combination of the Kencana Petroleum Business and the SapuraCrest Business will collectively form the combined entity under Integral Key.

Upon the disposal of the Kencana Petroleum Business, the Company shall, subject to obtaining all requisite approvals, distribute the Consideration to the Company's shareholders by way of a capital reduction and repayment exercise under Section 64 of the Companies Act, 1965.

Thereafter, the Company shall issue 2 Kencana Petroleum Shares to Integral Key such that the Company will become a wholly-owned subsidiary of Integral Key. Upon the completion of the distribution of the Consideration and the issuance of Kencana Petroleum Shares to Integral Key, the Company shall then be delisted from the Main Market of Bursa Malaysia Securities Berhad.

### *Acquisition of a subsidiary*

On 4 July 2011 the Company via Kencana Torsco Sdn. Bhd. ("KTC") has entered into an agreement to acquire 60% equity interest in King Hang Engineering Company Limited ("KHE") comprising 3,450,000 ordinary shares of HK$1.00 each for a purchase consideration of HK$30,000,000. The acquisition was completed on 5 September 2011.

### *Disposal of a subsidiary*

On 29 August 2011 the Company via AME has entered into a share sale agreement to dispose of 100% equity interest in Merit Technologies Sdn. Bhd. ("MTSB") for a total consideration of RM7,000,000. Upon completion of the disposal, MTSB will cease to be a subsidiary of AME.

## 35. SIGNIFICANT CHANGES IN ACCOUNTING POLICIES

### 35.1 FRS 139, *Financial Instruments: Recognition and Measurement*

The adoption of FRS 139 has resulted in several changes to accounting policies relating to recognition and measurement of financial instruments. Significant changes in accounting policies are as follows:

*Impairment of trade and other receivables*

Prior to the adoption of FRS 139, an allowance for doubtful debts was made when a receivable is considered irrecoverable by the management. With the adoption of FRS 139, an impairment loss is recognised for trade and other receivables and is measured as the difference between the asset's carrying amount and the present value of estimated future cash flows discounted at the asset's original effective interest rate.

These changes in accounting policies have been made in accordance with the transitional provisions of FRS 139. Comparatives are not adjusted.

The adoption of FRS 139 does not affect the basic earnings per ordinary share for prior periods and has no impact to the current year's basic earnings per ordinary share.

### 35.2 FRS 123, *Borrowing Costs (revised)*

Before 1 August 2010, borrowing costs were all expensed to profit or loss as and when they were incurred. With the adoption of FRS 123, the Group capitalises borrowing costs that are directly attributable to the acquisition, construction and production of a qualifying asset as part of the cost of the asset for which the commencement date of capitalisation is on or after 1 August 2010.

The change in accounting policy has been applied prospectively in accordance with the transitional provisions of the revised FRS 123.

Hence, the adoption of the revised FRS 123 does not affect the basic and diluted earnings per ordinary share for prior periods and has no material impact to current year's basic and diluted earnings per ordinary share.

### 35.3 FRS 101, *Presentation of Financial Statements (revised)*

The Group and the Company applies FRS 101 (revised) which became effective as of 1 August 2010. As a result, the Group and the Company presents all non-owner changes in equity in the consolidated statement of comprehensive income.

Comparative information has been re-presented so that it is in conformity with the revised standard. Since the change only affects presentation aspects, there is no impact on earnings per share.

## 35. SIGNIFICANT CHANGES IN ACCOUNTING POLICIES (CONTINUED)

### 35.4 FRS 117, *Leases*

The Group has adopted the amendment to FRS 117. The Group has reassessed and determined that all leasehold land of the Group which are in substance is finance leases and has reclassified the leasehold land to property, plant and equipment. The change in accounting policy has been made retrospectively in accordance with the transitional provisions of the amendment.

The reclassification does not affect the basic and diluted earnings per ordinary share for the current and prior periods.

## 36. COMPARATIVE FIGURES

### 36.1 FRS 101, *Presentation of Financial Statements (revised)*

Arising from the adoption of FRS 101 (revised), income statements for the year ended 31 July 2010 have been re-presented as statement of comprehensive income. All non-owner changes in equity that were presented in the statement of changes in equity are now included in the statement of comprehensive income as other comprehensive income. Consequently, components of comprehensive income are not presented in the statement of changes in equity.

Balance sheets as at 31 July 2010 have been re-presented as statement of financial position.

### 36.2 FRS 117, *Leases*

Following the adoption of the amendment to FRS 117, certain comparatives have been re-presented as follows:

| | Group | | | |
|---|---|---|---|---|
| | 31.7.2010 | | 1.8.2009 | |
| | As restated RM'000 | As previously stated RM'000 | As restated RM'000 | As previously stated RM'000 |
| ***Statements of financial position*** | | | | |
| Property, plant and equipment | 485,891 | 394,573 | 309,171 | 245,556 |
| Prepaid lease payments | – | 91,318 | – | 63,615 |

## 37. SUPPLEMENTARY INFORMATION ON THE BREAKDOWN OF REALISED AND UNREALISED PROFITS OR LOSSES

On 25 March 2010, Bursa Malaysia Securities Berhad ("Bursa Malaysia") issued a directive to all listed issuers pursuant to Paragraphs 2.06 and 2.23 of Bursa Malaysia Main Market Listing Requirements. The directive requires all listed issuers to disclose the breakdown of the unappropriated profits or accumulated losses as at the end of the reporting period, into realised and unrealised profits or losses.

On 20 December 2010, Bursa Malaysia further issued another directive on the disclosure and the prescribed format of presentation. The breakdown of the retained earnings/(accumulated losses) of the Group and of the Company as at 31 July 2011, into realised and unrealised profits, pursuant to the directive, is as follows:

| | 2011 | |
|---|---|---|
| | **Group RM'000** | **Company RM'000** |
| Total retained earnings/(accumulated losses) of the Company and its subsidiaries: | | |
| - Realised | 646,779 | (271) |
| - Unrealised | (44,429) | – |
| Total retained earnings/ (accumulated losses) | 602,350 | (271) |

The determination of realised and unrealised profits is based on the Guidance on Special Matter No.1, *Determination of Realised and Unrealised Profits or Losses in the Context of Disclosures Pursuant to Bursa Malaysia Securities Berhad Listing Requirements,* issued by Malaysian Institute of Accountants on 20 December 2010.

# 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 80 to 164 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 2011 and of their financial performance and cash flows for the year then ended.

In the opinion of the Directors, the information set out in Note 37 to the financial statements has been properly compiled in accordance with the Guidance of Special Matter No.1, Determination of Realised and Unrealised Profits or Losses in the Context of Disclosures Pursuant to Bursa Malaysia Securities Berhad Listing Requirements, issued by the Malaysian Institute of Accountants and presented based on the format prescribed by Bursa Malaysia Securities Berhad.

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 2011

# 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 80 to 164 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 2011.

**Yeow Kheng Chew**

Before me:

# *Independent Auditors' Report*
## *To the members of Kencana Petroleum Berhad*

**Report on the Financial Statements**

We have audited the financial statements of Kencana Petroleum Berhad, which comprise the statements of financial position as at 31 July 2011 of the Group and of the Company, and the statements of comprehensive income, changes in equity and cash flows of the Group and of the Company for the year then ended, and a summary of significant accounting policies and other explanatory information, as set out on pages 80 to 164.

*Directors' Responsibility for the Financial Statements*

The Directors of the Company are responsible for the preparation of financial statements that give a true and fair view in accordance with Financial Reporting Standards and the Companies Act, 1965 in Malaysia, and for such internal control as the Directors determine are necessary to enable the preparation of financial statements that are free from material misstatement, whether due to fraud or error.

*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 about 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 entity's preparation of financial statements that give a true and fair view 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 entity'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 2011 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 Reporting Responsibilities**

Our audit was made for the purpose of forming an opinion on the financial statements taken as a whole. The information set out in Note 37 to the financial statements has been compiled by the Company as required by the Bursa Malaysia Securities Berhad Listing Requirements and is not required by the Financial Reporting Standards. We have extended our audit procedures to report on the process of compilation of such information. In our opinion, the information has been properly compiled, in all material respects, in accordance with the Guidance on Special Matter No.1, Determination of Realised and Unrealised Profits or Losses in the Context of Disclosures Pursuant to Bursa Malaysia Securities Berhad Listing Requirements, issued by the Malaysian Institute of Accountants and presented based on the format prescribed by Bursa Malaysia Securities Berhad.

**Other Matters**

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

**KPMG**
Firm Number: AF 0758
Chartered Accountants

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

Petaling Jaya,

Date: 28 October 2011

# Analysis Of Shareholdings

## As at 21 October 2011

| | | |
|---|---|---|
| Authorised Share Capital | : | RM300,000,000.00 divided into 3,000,000,000 ordinary shares of RM0.10 each |
| Issued and fully paid-up | : | RM198,929,240.20 divided into 1,989,292,402 ordinary shares of RM0.10 each |
| Type of Shares | : | Ordinary shares of RM0.10 each |
| No. of Shareholders | : | 11,011 |
| Voting Rights | : | One vote per ordinary share |

**DISTRIBUTION OF SHAREHOLDINGS**

| Size of Holdings | No. of Holders | % | No. of Shares | % |
|---|---|---|---|---|
| Less than 100 | 439 | 3.99 | 11,778 | 0.00 |
| 100 – 1,000 | 1,386 | 12.59 | 1,127,683 | 0.06 |
| 1,001 - 10,000 | 6,918 | 62.82 | 29,798,648 | 1.50 |
| 10,001 - 100,000 | 1,796 | 16.31 | 53,487,857 | 2.68 |
| 100,001 to less than 5% of issued shares | 467 | 4.24 | 1,315,104,805 | 66.11 |
| More than 5% of issued shares | 5 | 0.05 | 589,761,631 | 29.65 |
| **Total** | **11,011** | **100.00** | **1,989,292,402** | **100.00** |

**LIST OF THIRTY (30) LARGEST SHAREHOLDERS**

| | Name of Shareholders | No. of Shares | % of Shares |
|---|---|---|---|
| 1. | Citigroup Nominees (Tempatan) Sdn. Bhd.<br>Employees Provident Fund Board | 133,008,700 | 6.69 |
| 2. | Khasera Baru Sdn. Bhd. | 121,480,731 | 6.11 |
| 3. | Mayban Nominees (Tempatan) Sdn. Bhd.<br>Kuwait Finance House (Malaysia) Berhad for<br>Khasera Baru Sdn. Bhd. (Glossy H Ltd) | 119,975,000 | 6.03 |
| 4. | Chong Hin Loon | 114,381,000 | 5.75 |
| 5. | Amsec Nominees (Tempatan) Sdn. Bhd.<br>Pledged Securities Account – Ambank (M) Berhad for<br>Khasera Baru Sdn. Bhd. | 100,916,200 | 5.07 |
| 6. | Amsec Nominees (Tempatan) Sdn. Bhd.<br>Pledged Securities Account – Ambank (M) Berhad for<br>Khasera Baru Sdn. Bhd. | 93,366,400 | 4.69 |
| 7. | Amanahraya Trustees Berhad<br>Skim Amanah Saham Bumiputra | 92,587,000 | 4.65 |
| 8. | Worldclass Inspiration Sdn. Bhd. | 81,971,522 | 4.12 |
| 9. | HSBC Nominees (Tempatan) Sdn. Bhd.<br>AA Noms SG for Khasera Baru Sdn. Bhd. | 73,000,000 | 3.67 |

## LIST OF THIRTY (30) LARGEST SHAREHOLDERS (CONTINUED)

| | Name of Shareholders | No. of Shares | % of Shares |
|---|---|---|---|
| 10. | Kumpulan Wang Persaraan (Diperbadankan) | 59,938,494 | 3.01 |
| 11. | AMMB Nominees (Tempatan) Sdn. Bhd.<br>Ambank (M) Berhad for Khasera Baru Sdn. Bhd. | 48,779,300 | 2.45 |
| 12. | Amsec Nominees (Tempatan) Sdn. Bhd.<br>Pledged Securities Account – Ambank (M) Berhad for Khasera Baru Sdn. Bhd. | 40,000,000 | 2.01 |
| 13. | HSBC Nominees (Asing) Sdn. Bhd.<br>Exempt an for Credit Suisse (SG BR-TST-ASING) | 38,940,814 | 1.96 |
| 14. | Citigroup Nominees (Asing) Sdn. Bhd.<br>Exempt an for UBS AG Singapore (Foreign) | 36,127,000 | 1.82 |
| 15. | Lembaga Tabung Haji | 31,309,400 | 1.57 |
| 16. | HSBC Nominees (Asing) Sdn. Bhd.<br>Exempt an for UBS AG Singapore (Foreign) | 29,029,300 | 1.46 |
| 17. | Citigroup Nominees (Tempatan) Sdn. Bhd.<br>Exempt an for Prudential Fund Management Berhad | 25,473,700 | 1.28 |
| 18. | Amanahraya Trustees Berhad<br>Amanah Saham Didik | 24,895,600 | 1.25 |
| 19. | Amanahraya Trustees Berhad<br>Amanah Saham Malaysia | 23,162,000 | 1.16 |
| 20. | Amanahraya Trustees Berhad<br>Amanah Saham Wawasan 2020 | 20,694,000 | 1.04 |
| 21. | HSBC Nominees (Asing) Sdn. Bhd.<br>Exempt an for JPMorgan Chase Bank National Association (Saudi Arabia) | 20,049,348 | 1.01 |
| 22. | HLB Nominees (Tempatan) Sdn. Bhd.<br>Pledged Securities Account for Khasera Baru Sdn. Bhd. (SIN 90927-4) | 18,178,100 | 0.91 |
| 23. | Cher Lee Kiat | 14,985,070 | 0.75 |
| 24. | Amanahraya Trustees Berhad<br>Public Islamic Select Enterprises Fund | 14,853,876 | 0.75 |
| 25. | Amsec Nominees (Tempatan) Sdn. Bhd.<br>Amtrustee Berhad for Worldclass Inspiration Sdn. Bhd. | 13,432,836 | 0.68 |
| 26. | Allied Asset Holdings Sdn. Bhd. | 13,432,836 | 0.68 |

# *Analysis Of Shareholdings*
## *As at 21 October 2011 (continued)*

**LIST OF THIRTY (30) LARGEST SHAREHOLDERS (CONTINUED)**

| | Name of Shareholders | No. of Shares | % of Shares |
|---|---|---|---|
| 27. | Amanahraya Trustees Berhad<br>Public Islamic Select Treasures Fund | 12,062,274 | 0.61 |
| 28. | Richard Mah Foo Kheong | 12,000,000 | 0.60 |
| 29. | Citigroup Nominees (Tempatan) Sdn. Bhd.<br>CBHK for Kuwait Investment Authority (Fund 202) | 11,643,400 | 0.59 |
| 30. | Amsec Nominees (Tempatan) Sdn. Bhd.<br>Amtrustee Berhad for CIMB Islamic Dali Equity Fund (UT-CIMB-DALI) | 11,512,630 | 0.58 |

**SUBSTANTIAL SHAREHOLDERS**

| Name | Direct Interest | | Indirect Interest | |
|---|---|---|---|---|
| | No. of Shares | % | No. of Shares | % |
| Khasera Baru Sdn. Bhd. | 632,695,733 | 31.81 | 0 | 0 |
| Dato' Mokhzani Bin Mahathir | 7,553,000 | 0.38 | 632,695,733(i) | 31.81 |
| Chong Hin Loon | 122,939,300 | 6.18 | 0 | 0 |
| Employees Provident Fund Board | 181,437,700 | 9.12 | 0 | 0 |

**Note:-**

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

**DIRECTORS' SHAREHOLDINGS**

| Name | Direct Interest | | Indirect Interest | |
|---|---|---|---|---|
| | No. of Shares | % | No. of Shares | % |
| Tan Sri Nik Mohamed Bin Nik Yaacob | 0 | 0 | 0 | 0 |
| Dato' Mokhzani Bin Mahathir | 7,553,000 | 0.38 | 632,695,733(i) | 31.81 |
| Chong Hin Loon | 122,939,300 | 6.18 | 0 | 0 |
| Yeow Kheng Chew | 13,850,200 | 0.70 | 0 | 0 |
| Cher Lee Kiat | 14,985,070 | 0.75 | 6,795,512(ii) | 0.34 |
| Azmi Bin Ismail | 455,000 | 0.02 | 0 | 0 |
| Syed Zaid Bin Syed Jaafar Albar | 250,000 | 0.01 | 0 | 0 |
| Mohd Adzahar Bin Abdul Wahid | 0 | 0 | 0 | 0 |
| Tunku Dato' Mahmood Fawzy Bin Tunku Muhiyiddin | 0 | 0 | 0 | 0 |

**Notes:-**

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

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

# List of Properties

## *As at 31 July 2011*

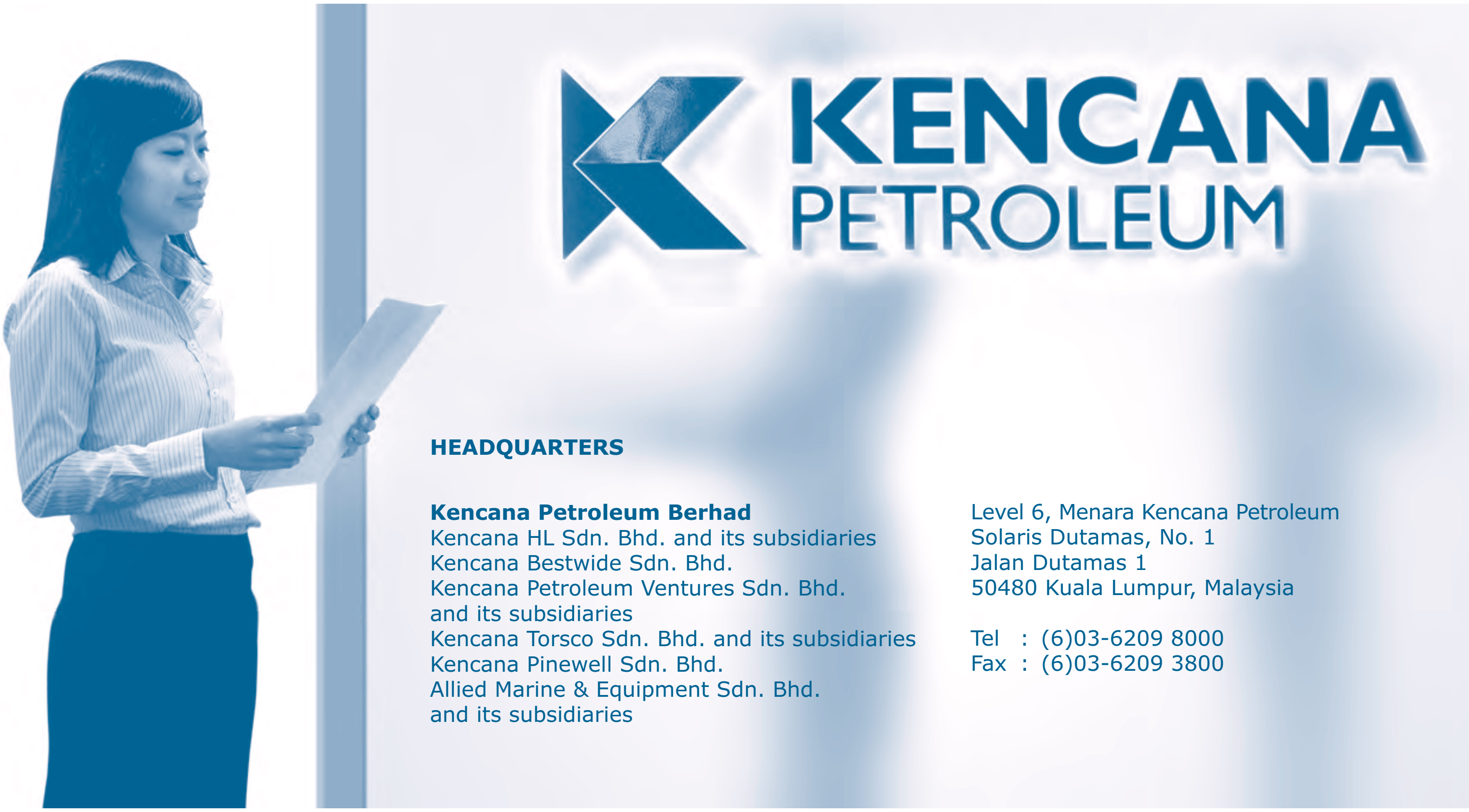
| Location | Tenure/ Expiry Date | Area (sq ft) | Description/ Existing use | Net Book Value (RM'000) | Age of building (Years) | Year of Acquisition |
|---|---|---|---|---|---|---|
| Plot D1, Lumut Port Industrial Park, Kampung Acheh, Mukim Lumut, Daerah Manjung, 32000 Sitiawan, Perak Darul Ridzuan, Malaysia | Leasehold/ 13 March 2096 | 470,884 | Fabrication Yard | 15,413 | Not Applicable | 1999 |
| Plot D7, Lumut Port Industrial Park, Kampung Acheh, Mukim Lumut, Daerah Manjung, 32000 Sitiawan, Perak Darul Ridzuan, Malaysia | Leasehold/ 13 March 2096 | 237,123 | Fabrication Yard/ Reserve Land/ Canteen & Client Office | 10,901 | Not Applicable | 2005 |
| Plot D12, Lumut Port Industrial Park, Kampung Acheh, Mukim Lumut, Daerah Manjung, 32000 Sitiawan, Perak Darul Ridzuan, Malaysia | Leasehold/ 13 March 2096 | 336,299 | Fabrication Yard/ Reserve Land | 3,857 | Not Applicable | 2005 |
| Plot D8, D9 and D11, Lumut Port Industrial Park, Kampung Acheh, Mukim Lumut, Daerah Manjung, 32000 Sitiawan, Perak Darul Ridzuan, Malaysia | Leasehold/ 13 March 2096 | 1,281,528 | Fabrication Yard/ Office Building/ Workshop | 69,989 | Not Applicable | 2002-2004 |
| Plot H1, Lumut Port Industrial Park, Kampung Acheh, Mukim Lumut, Daerah Manjung, 32000 Sitiawan, Perak Darul Ridzuan, Malaysia | Leasehold/ 09 July 2105 | 298,031 | Fabrication Yard | 2,429 | Not Applicable | 2008 |
| Plot H2, Lumut Port Industrial Park, Kampung Acheh, Mukim Lumut, Daerah Manjung, 32000 Sitiawan, Perak Darul Ridzuan, Malaysia | Leasehold/ 09 July 2105 | 425,587 | Fabrication Yard/ Workshop | 9,340 | Not Applicable | 2008 |
| Lot G9, Lumut Port Industrial Park Kampung Acheh, Mukim Lumut Daerah Manjung, 32000 Sitiwan Perak Darul Ridzuan, Malaysia | Leasehold/ 09 July 2105 | 653,046 | Fabrication Yard | 11,029 | Not Applicable | 2010 |
| Lot G6, G7 & G8 Lumut Port Industrial Park Kampung Acheh, Mukim Lumut Daerah Manjung, 32000 Sitiwan Perak Darul Ridzuan, Malaysia | Leasehold/ 09 July 2105 | 996,889 | Fabrication Yard/ Workshop | 20,575 | Not Applicable | 2010 |
| Lot D2 & D13 Lumut Port Industrial Park, Kampung Acheh, Mukim Lumut, Daerah Manjung, 32000 Sitiawan, Perak Darul Ridzuan, Malaysia | Leasehold/ 15 February 2096 | 570,616 | Fabrication Yard/ Workshop/ Access Road | 19,492 | Not Applicable | 1996-2001 2007 |

# List of Properties

## *As at 31 July 2011 (continued)*

| Location | Tenure/ Expiry Date | Area (sq ft) | Description/ Existing use | Net Book Value (RM'000) | Age of building (Years) | Year of Acquisition |
|---|---|---|---|---|---|---|
| | Leasehold/ | | Industrial Land | 7,219 | | 2010 |
| PN 6654 Lot 5856 | 17 December 2063 | 437,090 | | | 8 | |
| PN 7583 Lot 6090 | 10 May 2066 | 174,839 | | | 5 | |
| PN 8374 Lot 6103<br>Mukim of Teluk Kalung<br>Kemaman, Terengganu, Malaysia | 20 December 2066 | 279,000 | | | 5 | |
| PN 59581<br>Lot No.3079, Seksyen 13<br>Bandar Shah Alam,<br>Petaling Jaya, Selangor, Malaysia | Leasehold/<br>23 October 2104 | 7,631 | Bungalow Lot | 626 | 6 | 2010 |
| K 9595, Taman Chukai Utama,<br>Jalan Kubang Kurus,<br>24000 Kemaman,<br>Terengganu Darul Iman, Malaysia | Leasehold/<br>18 April 2087 | 2,664 | 2-Storey Corner Shop Office | 434 | 23 | 2002 |
| | Leasehold/ | 108,498 | Fabrication Yard/ | 3,534 | 16 | 1993 - 2006 |
| PT No. 595, H.S. (D) Dgs 1276/88 & | 29 September 2087 | | Workshop & | | | |
| PT No. 538, H.S. (D) Dgs 1272/88,<br>Lumut Port Industrial Park,<br>Kampung Acheh, Mukim Lumut,<br>Daerah Manjung, 32000 Sitiawan,<br>Perak Darul Ridzuan, Malaysia | 28 September 2087 | | Office Building | | | |
| Lot I1, Lumut Port Industrial Park,<br>Kampung Acheh, Mukim Lumut,<br>Daerah Manjung, 32000 Sitiawan,<br>Perak Darul Ridzuan, Malaysia | Leasehold/<br>09 July 2105 | 269,612 | Fabrication Yard & Workshop | 7,307 | 3-15 | 1995 - 2009 |
| Lot H4, Lumut Port Industrial Park,<br>Kampung Acheh, Mukim Lumut,<br>Daerah Manjung, 32000 Sitiawan,<br>Perak Darul Ridzuan, Malaysia | Leasehold/<br>2094 | 961,282 | Fabrication Yard/ Workshop & Office Building | 37,357 | 4 | 2006 - 2008 |
| Unit B-10-9, Megan Avenue II,<br>No. 12 Jalan Yap Kwan Seng,<br>50450 Kuala Lumpur, Malaysia | Freehold | 2,530 | Office Lot | 720 | 12 | 2005 |
| PM 819, Lot No. 58139<br>Bandar Selayang, Batu Caves<br>Selangor Darul Ehsan, Malaysia | Leasehold/<br>9 December 2093 | 17,524 | Office Building | 1,407 | 13 | 2000 |
| HS(D) 222598, Lot No. 34<br>Bandar Selayang, Daerah Gombak<br>Selangor Darul Ehsan, Malaysia | Freehold | 39,936 | Office Building (under construction) | 12,995 | Not Applicable | 2004 |
| HSD No. 12117, PT No. 7975<br>Bandar Serendah, Daerah Ulu Selangor<br>Selangor Darul Ehsan, Malaysia | Freehold | 3,633 | Shoplot | 249 | 10 | 2002 |
| Unit C-7-5, Megan Avenue I<br>Jalan Tun Razak<br>50400 Kuala Lumpur, Malaysia | Freehold | 1,539 | Office Lot | 296 | 10 | 2002 |

# Group Directory




**HEADQUARTERS**

**Kencana Petroleum Berhad**
Kencana HL Sdn. Bhd. and its subsidiaries
Kencana Bestwide Sdn. Bhd.
Kencana Petroleum Ventures Sdn. Bhd.
and its subsidiaries
Kencana Torsco Sdn. Bhd. and its subsidiaries
Kencana Pinewell Sdn. Bhd.
Allied Marine & Equipment Sdn. Bhd.
and its subsidiaries

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

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

**OPERATION OFFICES**

**Kencana HL Sdn. Bhd.**
(Lumut Fabrication Yard)

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

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

**Kencana Torsco Sdn. Bhd.**
(Lumut Fabrication Yard)

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

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

**Kencana Pinewell Sdn. Bhd.**

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

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

**Allied Marine & Equipment Sdn. Bhd.**

No. 23, Jalan Industri Batu Caves 1/6
Taman Perindustrian Batu Caves
68100 Selangor, Malaysia

Tel : (6)03-6185 0844
Fax : (6)03-6185 0699

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KENCANA PETROLEUM

# Form Of Proxy

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 Seventh 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, 15 December 2011 at 11.00 a.m. and at any adjournment thereof, in the manner indicated below:

| **Resolution** | **For** | **Against** |
|---|---|---|
| 1. To re-elect Tan Sri Nik Mohamed bin Nik Yaacob as Director. | | |
| 2. To re-elect Dato' Mokhzani bin Mahathir as Director. | | |
| 3. To re-elect Syed Zaid bin Syed Jaffar Albar as Director. | | |
| 4. To approve the payment of Directors' fees amounting to RM230,000 for the financial year ended 31 July 2011. | | |
| 5. To re-appoint Messrs. KPMG as Auditors of the Company for the ensuing financial year, and to authorise the Directors to fix their remuneration. | | |
| 6. 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<br><br>______________________<br>Signed by *individual member/*officer or attorney of member/*authorised nominee of<br>______________________<br>(beneficial owner) | No. of Shares held : ______________<br><br>Securities Account No :<br>______________________<br>(CDS Account No.) (Compulsory)<br><br>Date : | The proportions of my/our holding to be represented by my/our proxies are as follows:<br><br>**First Proxy**<br>No. of Shares :______________<br>Percentage :______________ %<br><br>**Second Proxy**<br>No. of Shares :<br>Percentage :______________ %<br>______________ |
| If appointment of proxy is under seal<br><br>The Common Seal of<br>______________________<br>was hereto affixed in accordance with its Articles of Association in the presence of:<br><br>__________ __________<br>Director Director/Secretary<br><br>in its capacity as *member/*attorney of member/*authorised nominee of<br>______________________<br>(beneficial owner) | **Seal**<br><br>No. of Shares held : ______________<br><br>Securities Account No :<br>______________________<br>(CDS Account No.) (Compulsory)<br><br>Date : | |

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**Notes:**

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

(b) A member shall not be entitled to appoint more than two (2) proxies to attend and vote at the same meeting. Where a member appoints two (2) proxies, the appointments shall be invalid unless he specifies the proportions of his holdings to be represented by each proxy. Where a member of the Company is an authorised nominee as defined under the Securities Industry (Central Depositories) Act, 1991, 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) The instrument of proxy must be deposited at the Registered Office of the Company at Lot 6.08, 6th Floor, Plaza First Nationwide, No. 161, Jalan Tun. H.S. Lee, 50000 Kuala Lumpur, not less than forty-eight (48) hours before the time fixed for holding the Meeting or at any adjournment thereof.

* Please strike out whichever inapplicable.

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**STAMP**

The Company Secretary

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

www.kencanapetroleum.com.my

**Kencana Petroleum Berhad** (667490-M)
Level 6, Menara Kencana Petroleum
Solaris Dutamas, 1, Jalan Dutamas 1
50480 Kuala Lumpur, Malaysia.

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