

**13. DIRECTORS' REPORT**

*(Prepared for inclusion in the Prospectus)*



## Kencana Petroleum

www.knpe.com.my

**15 NOV 2006**

The Shareholders of  
**Kencana Petroleum Berhad**  
Suite 405, 4th Floor, Magnum Plaza  
No. 128, Jalan Pudu  
55100 Kuala Lumpur

Dear Sir/Madam,

On behalf of the Board of Directors of Kencana Petroleum Berhad ("**Kencana Petroleum or Company**"), I wish to report after due enquiry that between the period from 31 July 2006 (being the date to which the last audited financial statements of Kencana Petroleum and its subsidiaries ("**Group**") have been made up) to **15 NOV 2006** (being a date not earlier than 14 days before the issuance of this Prospectus), that:

- (a) The business of the Group has, in the opinion of the Directors, been satisfactorily maintained;
- (b) In the opinion of the Directors, no circumstances have arisen since the last audited financial statements of the Group, which have adversely affected the trading or the value of the assets of the Group;
- (c) The current assets of the Group appear in the books at values, which are believed to be realisable in the ordinary course of business;
- (d) Save as disclosed in this Prospectus, there are no contingent liabilities by reason of any guarantees or indemnities given by the Group;
- (e) There have been, since the latest audited financial statements of the Group, no default or any known event that could give rise to a default situation, in respect of payments, of either interest and/or principal sums in respect of any borrowings; and
- (f) Save as disclosed in this Prospectus, there have been, since the last audited financial statements of the Group, no material changes in the published reserves or any unusual factors affecting the profits of the Group.

Yours faithfully,  
For and on behalf of the Board of Directors of  
**KENCANA PETROLEUM BERHAD**

**ZAINAL RASHID BIN MOKHTAR**  
Group Chief Executive Officer /  
Executive Director

**Kencana Petroleum Berhad** (667490-M)  
*(Formerly known as Radiant Horizon Sdn Bhd)*

**Corporate Office**

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

**Corporate Office (Branch)**

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

## **14. FURTHER STATUTORY AND OTHER GENERAL INFORMATION**

### **14.1 SHARE CAPITAL**

- (i) Save as disclosed in Sections 4.1.3 and 4.1.4 of this Prospectus, no shares will be allocated or sold on the basis of this Prospectus later than twelve (12) months after the date of issue of this Prospectus.
- (ii) There is only one class in the Company, namely ordinary shares of RM0.10 each, all of which rank pari passu with one another.
- (iii) Save as disclosed in Sections 2.2, 4.1.2, 4.1.3 and 4.1.4 of this Prospectus, no shares, debentures, warrants, options, convertible securities or uncalled capital of the Company and its subsidiaries have been issued or are proposed to be issued as fully or partly paid-up in cash or otherwise, within the two (2) years preceding from the date thereof.
- (iv) Save for the Issue Shares reserved for the eligible Directors, employees and business associates of the Group and up to 44,000,000 new Kencana Petroleum Shares to be issued pursuant to the ESOS option as disclosed in Section 4.1.4 of this Prospectus, no person or Director or employee of the Group has been or is entitled to be given an option to subscribe for any shares, stocks or debentures of the Company or its subsidiaries.
- (v) Save as disclosed in Sections 2.2, 4.1.2, 4.1.3 and 4.1.4 of this Prospectus, no ordinary shares or debentures of the Company and its subsidiaries have been issued or are proposed to be fully or partly paid-up for otherwise than in cash within the two (2) years preceding the date of this Prospectus.

### **14.2 ARTICLES OF ASSOCIATION**

The following provisions are reproduced from the Company's Articles of Association. Terms used are as defined in the Company's Articles of Association.

#### **TRANSFER AND TRANSMISSION OF SECURITIES**

- 32. The transfer of any listed security or class of listed security of the Company shall be by way of book entry by the Depository in accordance with the Rules and, notwithstanding sections 103 and 104 of the Act, but subject to subsection 107C(2) of the Act and any exemption that may be made from compliance with subsection 107C(1) of the Act, the Company shall be precluded from registering and effecting any transfer of the listed securities.
- 33. The instrument of transfer of any share shall be executed by or on behalf of the transferor, and the transferor shall be deemed to remain the holder of the share until the name of the transferee is entered in the Record of Depositors in respect thereof.

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**14. FURTHER STATUTORY AND OTHER GENERAL INFORMATION (Cont'd)**

37. Neither the Company nor its Directors nor any of its officers shall incur any liability for the act of the Depository in registering or acting upon a transfer of shares apparently made by a Member or any persons entitled to the shares by reason of the death, bankruptcy or insanity of the Members although the same may by reason of any fraud or other cause not known to the Company or its Directors or the Depository or other officers be legally inoperative or insufficient to pass the property in the shares proposed or professed to be transferred, and although the transfer may, as between the transferor and transferee, be liable to be set aside, and notwithstanding that the Company may have notice that such instrument or transfer was signed or executed and delivered by the transferor in blank as to the name of the transferee, of the particulars of the shares transferred, or otherwise in defective manner. And in every such case, the person registered as transferee, his executors, administrators and assignees alone shall be entitled to be recognized as the holder of such shares and the previous holder shall, so far as the Company is concerned, be deemed to have transferred his whole title thereto.
39. In the case of the death of a Member, the executors or administrators of the deceased shall be the only persons recognized by the Company as having any title to his interest in the shares. Any person becoming entitled to a share in consequence of the death or bankruptcy of a member may, subject to the Rules and Article 33 hereof, transfer the share to himself or to some person nominated by him as the transferee.
40. Any person becoming entitled to a share in consequence of the death or bankruptcy of a Member may, upon such evidence being produced as may from time to time properly be required by the Rules and subject as hereinafter provided, elect either to be registered himself as holder of the share or to have some person nominated by him registered as the transferee thereof, but the Depository shall in either case have the same right to decline or suspend registration as they would have had in the case of a transfer of the share by that Member before his death or bankruptcy PROVIDED ALWAYS that where the share is a deposited security, subject to the Rules, a transfer or withdrawal of the share may be carried out by the person becoming so entitled.

**REMUNERATION OF DIRECTORS**

87. Fees of Directors shall from time to time be determined by the Company in general meeting, and such fees shall be divided among the Directors in such proportions and manner as the Directors may determine PROVIDED ALWAYS that:
- (a) fees payable to Directors who hold no executive office in the Company shall be paid by a fixed sum and not by a commission on or percentage of profits or turnover;
  - (b) salaries payable to executive Directors may not include a commission on or percentage of turnover;
  - (c) fees payable to Directors shall not be increased except pursuant to a resolution passed at a general meeting where notice of the proposed increase has been given in the notice convening the meeting;
  - (d) any fee paid to an alternate Director shall be agreed between himself and the Director nominating him and shall be paid out of the remuneration of the latter; and

**14. FURTHER STATUTORY AND OTHER GENERAL INFORMATION (Cont'd)**

- (e) executive Director(s) shall, subject to the terms of any agreement entered into in any particular case, receive such remuneration as the Directors may from time to time determine.

88. Reimbursement of expenses

- (1) The Directors shall be paid all their travelling and other expenses properly and necessarily expended by them in and about the business of the Company including their travelling and other expenses incurred in attending Board Meetings of the Company.
- (2) If any Director whether he holds an executive or non executive position in the Company, being willing shall be called upon to perform extra services or to make any special arrangements in going or residing away from his usual place of business or residence for any of the purposes of the Company or in giving special attention to the business of the Company as a member of a committee of Directors, the Company may remunerate the Director so doing if he holds an executive position in the Company, either by a fixed sum or otherwise (other than by a sum to include a commission on or percentage of turnover) and if he holds a non-executive position in the Company, either by a fixed sum or otherwise (other than by a sum to include a commission on or percentage of profits or turnover) and such remuneration may be either in addition to or in substitution for his or their share in the remuneration from time to time provided for the Directors.

**VOTING AND BORROWING POWERS OF DIRECTORS**

- 113. Subject to Article 114, the Directors may from time to time at their discretion raise or borrow for the purpose of the Company such sums of money as they think proper and may also raise or secure the payment of such money in such manner and upon such terms and conditions in all respects as they think fit, and in particular by the issue of debentures or debenture stock of the Company, charged upon all or any part of the property of the Company (both present and future) including uncalled capital, or by means of charges, mortgages, bonds and dispositions in security or bonds or cash deposit, with or without power of sale, and upon such other terms and conditions as the Directors shall think fit.
- 114. The Directors shall not borrow any money or mortgage or charge any of the Company or its subsidiaries' undertaking, property or any uncalled capital, or to issue debentures and other securities whether outright or as security for any debt, liability or obligation of any unrelated third party.
- 122. (1) A Director who is in any way, whether directly or indirectly interested in a contract or proposed contract or arrangement with the Company shall declare the nature of his interest in accordance with the provisions of the Act. A Director shall not vote in respect of any contract or proposed contract or arrangement in which he has directly or indirectly, a personal interest and if he should do so his vote should not be counted, but this prohibition shall not apply to:
  - (a) any arrangement for giving any Director any security or indemnity in respect of money lent by him or obligations undertaken by him for the benefit of the Company or any of its subsidiaries; or

**14. FURTHER STATUTORY AND OTHER GENERAL INFORMATION (Cont'd)**

- (b) any arrangement for the giving by the Company of any security to a third party in respect of a debt or obligation of the Company or any of its subsidiaries for which the Director himself has assumed responsibility in whole or in part under a guarantee or indemnity or by the giving of a security.

**CHANGES IN CAPITAL OR VARIATION OF RIGHTS**

The provisions in Kencana Petroleum's Article of Association as to the change in capital or variation of class rights, which are as stringent as those provided in the Act, are as follows:

- 7. If at any time the share capital is divided into different classes of shares, the rights attached to any class (unless otherwise provided by the terms of issue of the shares of that class) may whether or not the Company is being wound up, be varied with the consent in writing of the holders of three-fourths (3/4) of the issued shares of that class, or with the sanction of a special resolution passed at a separate general meeting of the holders of the shares of that class. To every such separate general meeting, the provisions of these Articles relating to general meetings shall mutatis mutandis apply, but so that the necessary quorum shall be two (2) persons at least holding or representing by proxy one-third (1/3) of the issued shares of the class and that any holder of shares of the class present in person or by proxy may demand a poll. To every such special resolution, Section 152 of the Act shall apply with such adaptations as may be necessary.
- 8. The rights conferred upon the holders of the shares of any class with preferred or other rights shall not, unless otherwise expressly provided by the terms of issue of the shares of that class, be deemed to be varied by the creation or issue of further shares ranking as regards participation in the profits or assets of the Company in some or in all respects *pari passu* therewith.

**ALTERATION OF CAPITAL**

**48. Power to increase capital**

The Company may from time to time, whether all the shares for the time being authorised shall have been issued or all the shares for the time being issued shall have been fully called up or not, by ordinary resolution increase its share capital by the creation and issue of new shares, such new capital to be of such amount and to be divided into shares of such respective amounts and to carry such rights or to be subject to such conditions or restrictions in regard to dividend, return of capital or otherwise as the Company by the resolution authorizing such increase directs.

**51. Alteration of Capital**

The Company may from time to time by ordinary resolution:

**(a) Power to consolidate shares**

consolidate and divide all or any of its share capital into shares of larger amount than its existing shares;

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**14. FURTHER STATUTORY AND OTHER GENERAL INFORMATION (Cont'd)**

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**(b) Power to sub-divide shares**

subdivide its shares or any of them into shares of smaller amount than is fixed by the Memorandum of Association, so however that in subdivision the proportion between the amount paid and the amount (if any) unpaid on each reduced share shall be the same as it was in the case of the share from which the reduced share is derived; or

**(c) Power to cancel shares**

cancel shares which at the date of the passing of the resolution in that behalf have not been taken or agreed to be taken by any person or which have been forfeited and diminish the amount of its share capital by the amount of the shares so cancelled.

**52. Power to reduce capital**

The Company may by special resolution reduce its share capital, any capital redemption reserve fund or any share premium account in any manner and with and subject to, any authorisation, and consent required by law.

**14.3 DIRECTORS AND SUBSTANTIAL SHAREHOLDERS**

- (i) The names, addresses and occupations of the Directors of Kencana Petroleum are set out in the Corporate Information Section of this Prospectus.
- (ii) A Director is not required to hold any qualification share in the Company unless otherwise so fixed by the Company in general meeting.
- (iii) Save as disclosed in Section 2.9 of this Prospectus, no commission, discounts, brokerages or other special terms have been paid, granted or are payable by the Company or its subsidiaries within the two (2) years immediately preceding the date of this Prospectus for subscribing or agreeing to subscribe or procuring or agreeing to procure subscriptions for any shares in or debentures of the Company or its subsidiaries or in connection with the issue or sale of any capital of the Company or any of its subsidiaries and no Directors, proposed Directors, promoters or experts is or are entitled to receive any such payment.
- (iv) Other than salary and employment related benefits as disclosed in Section 5.3.3 of this Prospectus, no amount or benefit has been paid or given within the two (2) years immediately preceding the date hereof, nor is it intended to be so paid or given, to any Directors.  
  
Save and except for the net dividends of RM6,406,271 and remuneration and benefits for services rendered in all capacities to Kencana Petroleum Group as disclosed in Section 5.3.3 of this Prospectus, there are no other amounts paid or intended to be paid to any of Promoters, substantial shareholders or Directors, within two (2) years preceding the date of this Prospectus.
- (v) Save as disclosed in Section 7 of this Prospectus, none of the other Directors and/or substantial shareholders of Kencana Petroleum has interest in any subsisting contract or arrangement, which is significant to the business of the Company or the Group taken as a whole.

**14. FURTHER STATUTORY AND OTHER GENERAL INFORMATION (Cont'd)**

- (vi) Except as disclosed in Section 5.1 and 5.2 of this Prospectus, the Directors and substantial shareholders are not aware of any persons who are able, directly or indirectly, jointly or severally, to exercise control over the Company and its subsidiaries.

**14.4 MATERIAL CONTRACTS**

Save as disclosed below, there are no other material contracts (including contracts not reduced into writing), not being contracts entered into in the ordinary course of business which have been entered into by Kencana Petroleum and its subsidiaries within two (2) years preceding the date of this Prospectus:

- (a) Pursuant to a Joint Venture Agreement dated 31 December 2004 ("JVA") entered into between Keer-Trans (a company incorporated in Sudan) and Kencana HL, the parties have agreed to jointly establish a joint venture company in Sudan known as "Redsea Fabricator Co. Ltd" ("JV Co") under the laws of Sudan for the purpose of providing steel work fabrication and miscellaneous contracting services to the Sudanese Energy and Power Industry and to undertake contracts of related oil field development projects through bidding and negotiation processes in Sudan. The shares of the JV Co shall be jointly held by Keer-Trans and Kencana HL in the following proportion:
- Keer-Trans shall subscribe for 30% of the share capital of the JV Co; and
  - Kencana HL through its Sudan Branch shall subscribe for 70% of the share capital of the JV Co;

upon the terms and subject to the conditions therein contained.

- (b) On 28 December 2004, Ir Cher Lee Kiat, Ir Dr Tang Khai Hing, Richard Mah Foo Kheong, Ir Tan Siew Lee, Best Wide Holdings Sdn Bhd, Ir Loo Yeow Chuen, Ir New Cheng Swee, Tan Siew Sim, Ir Kong Kin Pong, Fred Devakumar Navaratnam, Ir Yau Ah Peng and Ir Ngim Chin Kim (collectively as "Vendors") and Radiant Horizon Sdn Bhd (presently known as Kencana Petroleum Berhad) (as "Purchaser"), entered into a sale of shares agreement ("Sale of Shares Agreement") whereby the Vendors have agreed to sell and the Purchaser has agreed to purchase the entire equity interest in Kencana Bestwide free from encumbrances comprising 1,500,000 ordinary shares of RM1.00 each for a total purchase consideration of RM11,430,000 which shall be satisfied by the allotment and issuance of new shares in Kencana Petroleum to the Vendors upon the terms and subject to the conditions of therein contained.

By a letter dated 20 May 2005 amongst the Vendors, the Purchaser and Best Wide Holdings, the Vendors novated and transferred all their rights, title, interest and benefits under the Sale of Shares Agreement to Best Wide Holdings. On 8 August 2006, Best Wide Holdings and the Purchaser entered into a first supplemental agreement to vary certain terms of the Sale of Shares Agreement upon the terms and subject to the conditions of therein contained.

**14. FURTHER STATUTORY AND OTHER GENERAL INFORMATION (Cont'd)**

- (c) On 26 January 2005, Kencana HL and Nadaprise Sdn Bhd entered into a joint venture agreement whereby the parties have agreed to:
- (1) enter into a joint venture via equal equity participation of 50:50 ratio in a joint venture company known as Red Sea Ventures Sdn Bhd ("Red Sea"); and
  - (2) incorporate a company in Sudan for which the shareholders thereof will comprise Red Sea with a Sudanese citizen/entity for the purpose of, inter alia, jointly setting up a fabrication yard at the Port of Sudan with all the necessary facilities to undertake plant construction and related steel work fabrication contracts available in Sudan;
- pursuant to the terms and subject to the conditions therein contained.
- (d) On 1 March 2005, LMTSB and Kencana HL entered into a sale and purchase agreement whereby LMTSB has agreed to sell and Kencana HL has agreed to purchase a plot of land known as D-7 measuring in area of approximately 5 acres, forming part of the project lands, which are leasehold land, provisionally known as "Lumut Port Industrial Park" held under HS (D) Dgs. 6248, 6249, 6250, 6251, 7098, 7099, 7101, 7102, 7100, 7103 and respectively PT No. 2274, 5000, 5001, 5002, 6966, 6967, 6969, 6970, 6968, 6971, all in Mukim Lumut, District of Manjung, State of Perak, for a total purchase consideration of RM1,524,593 ("Plot D-7 Purchase Consideration"), satisfied in cash, upon the terms and subject to the conditions therein contained.
- (e) On 1 March 2005, LMTSB and Kencana HL entered into a sale and purchase agreement whereby LMTSB has agreed to sell and Kencana HL has agreed to purchase a plot of land known as D-12 measuring in area of approximately 6.3 acres, forming part of the project lands, which are leasehold land, provisionally known as "Lumut Port Industrial Park" (of which the title particulars are as referred in item (c) above) in Mukim of Lumut, District of Manjung, State of Perak, for a total purchase price of RM1,918,056 ("Plot D-12 Purchase Consideration"), satisfied in cash, upon the terms and subject to the conditions therein contained.
- (f) On 15 April 2005, Prime Granite (Malaysia) Sdn Bhd (In Liquidation) acting by and through its liquidator ("PGSB") and Kencana HL entered into a sale and purchase agreement whereby PGSB has agreed to sell and Kencana HL has agreed to purchase all that parcel of land held under HS (D) 31972, PT No. 34458, Mukim Batu, Daerah Gombak, Negeri Selangor, measuring in area of approximately 26,572 square feet, free from encumbrances, for a total purchase consideration of RM2,500,000, satisfied in cash, upon the terms and subject to the conditions therein contained.
- (g) Kencana Petroleum had on 1 August 2005 acquired 100% equity interest in Kencana HL comprising 20,000,000 ordinary shares of RM1.00 each from Mohd Sobri bin Shuib, Ir Haron Bin Ali, Chong Hin Loon and Khasera Baru (collectively as "Kencana HL Vendors") for a total purchase consideration of RM48,569,998 which was satisfied by the issuance of 485,699,980 new ordinary shares of RM0.10 each in Kencana Petroleum to Kencana HL Vendors and was supplemented by a letter dated 9 August 2006 between the parties upon the terms and subject to the conditions therein contained.



**14. FURTHER STATUTORY AND OTHER GENERAL INFORMATION (Cont'd)**

(h) Pursuant to the Joint Venture Agreement dated 29 April 2006 and its Supplemental Joint Venture Agreement dated 29 April 2006 (collectively the "JVA") entered into amongst Peschaud Cie International (a company incorporated in France) and Keer Co. For Transport Services & Contracts Ltd (a company incorporated in Sudan) and Kencana Petroleum, the parties have agreed to enter into the JVA to regulate their relationship with each other inter se as shareholders of a private company limited by shares to be incorporated in Sudan, namely Swamp Barge Logistic Co. Ltd ("JV Co") and to set out certain aspects of and their dealings with the JV Co and its operations and management of the project pertaining to the provision of site set-up and drilling operations logistic equipment and services in Sudan ("Project") upon the terms and subject to conditions contained therein. Under the JVA, the parties have agreed to the following shareholding proportions in the JV Co upon the terms and subject to the conditions contained therein:

- Peschaud Cie International shall subscribe for 42.5% of the share capital of the JV Co;
- Keer Co. For Transport Services & Contracts Ltd shall subscribe for 42.5% of the share capital of the JV Co; and
- Kencana Petroleum shall subscribe for 15% of the share capital of the JV Co.

Pursuant to the JVA, the initial issued and paid up capital of the JV Co is USD100,000.00. Under the said JVA, the parties agreed that the issued and paid up capital will be reviewed from time to time and may be increased as and when required as to be mutually agreed by all parties.

(i) Pursuant to the Subscription and Shareholders' Agreement dated 7 November 2005 ("SSA") entered into amongst Tanjung Offshore Berhad and Global Process Systems LLC (a company incorporated in Dubai, United Arab Emirates) and Kencana HL, the parties have agreed to enter into the SSA to regulate their relationship with each other inter se as shareholders of and establish a private company limited by shares to be incorporated in Labuan, namely CMP for CMP to own, lease, sub-lease, maintain, operate and manage the mobile offshore production unit upon the terms and subject to conditions contained therein. Under the SSA, the parties have agreed to the following shareholding proportions in CMP upon the terms and subject to the conditions contained therein:

- Tanjung Offshore Berhad shall subscribe for 10% of the share capital of CMP;
- Global Process Systems LLC shall subscribe for 70% of the share capital of CMP; and
- Kencana Petroleum shall subscribe for 20% of the share capital of CMP.

However, pursuant to a letter dated 24 July 2006 issued by Kencana HL to Tanjung Offshore Berhad and Global Process Systems LLC, Kencana HL has disposed off its entire 20.0% shareholding in CMP comprising 392,000 shares of USD1.00 each at par value equally to Tanjung Offshore Berhad and Global Process Systems LLC for an aggregate consideration sum of USD392,000 satisfied in cash and upon completion of such disposal, all rights and responsibilities of Kencana HL under the SSA shall cease.

Kencana HL has also granted a guarantee based on its 20% proportion in favour of Maybank International Labuan ("MIL") of up to the extent of the sum of USD6,665,530 as mentioned in Section 9.6(iii) of this Prospectus in respect of a loan granted by MIL to CMP. Under the abovesaid letter dated

**14. FURTHER STATUTORY AND OTHER GENERAL INFORMATION (Cont'd)**

24 July 2006, it is provided that the remaining shareholders of CMP, namely Tanjung Offshore Berhad and Global Process Systems LLC shall procure MIL to release the corporate guarantee extended to MIL and pending such release, such remaining shareholders will collectively assume Kencana HL's responsibility under the said corporate guarantee.

- (j) Pursuant to the Deed of Novation Cum Assignment dated 19 June 2006 entered into amongst Kencana HL and Khasera Baru and Kencana Petroleum, in consideration of the sum of RM10.00 paid by Kencana Petroleum in cash to Kencana HL, Kencana HL has agreed to assign to Kencana Petroleum all its rights, title and interest vested in Kencana HL pursuant to an advance of RM5.0 million granted by Khasera Baru to Kencana HL upon the terms and subject to the conditions contained therein.
- (k) Pursuant to the Deed of Assignment and Novation dated 01 December 2004 entered into amongst Palmco Jaya Sdn Bhd, Kencana HL and LMTSB, in consideration of the sum of RM3,459,753.00 paid by Kencana HL in cash to Palmco Jaya Sdn Bhd, Palmco Jaya Sdn Bhd has agreed to assign, transfer and convey absolutely to Kencana HL all its rights, title, benefits and interest and novate all obligations and liabilities under (1) a sale and purchase agreement dated 03 May 1996 and its supplemental agreement dated 12 January 2004 entered into between Palmco Jaya Sdn Bhd and LMTSB and (2) the plot of land known as D-9 measuring in area of approximately 11.25 acres, forming part of the block title held under HS (D) 7099 PT No. 6967 in Mukim of Lumut, District of Manjung, State of Perak, upon the terms and subject to the conditions contained therein.
- (l) Pursuant to the Supplementary Sale and Purchase Agreement dated 2 May 2006 ("SSPA") entered into between LMTSB and Kencana HL, Kencana HL has agreed to purchase the road reserve at the north and west area as detailed in the attachment therein ("RR Land") and as a consequence of the SSPA, the sale and purchase agreements for Plots D-12 and D-7 (as detailed in items (d) and (c) above respectively) are thereby amended to incorporate the following amendments made to the acreage of Plots D-12 and D-7 respectively and upon the terms and subject to the conditions contained in the SSPA:
- (1) the approximate acreage for the RR Land over Plot D-12 is 1.430 acres which shall form part of Plot D-12 making the acreage of Plot D-12 to be increased from 6.3 acres to 7.73 acres; and
  - (2) the approximate acreage for the RR Land over Plot D-7 is 0.443 acres which shall form part of Plot D-7 making the acreage of Plot D-7 to be increased from 5 acres to 5.443 acres.

The RR Land is purchased at RM7.00 per square foot. The parties agreed that the payment for the RR Land for Plot D-12 is RM435,545.25 and shall be added to the Plot D-12 Purchase Consideration and the RR Land for Plot D-7 is RM135,264.99 and shall be added to the Plot D-7 Purchase Consideration and shall be satisfied in cash and payable in the manner as set out therein.

- (m) Pursuant to the Underwriting Agreement dated 16 October 2006 entered into amongst the Company and the Managing Underwriter and the Underwriter, the Underwriter has agreed to underwrite up to 59,000,000 Issue Shares in consideration of an underwriting commission of 1.50% of the IPO Price of RM0.41 per Issue Share upon the terms and subject to the conditions therein contained.

**14. FURTHER STATUTORY AND OTHER GENERAL INFORMATION (Cont'd)****14.5 MATERIAL LITIGATION**

Save as disclosed below, as at 11 October 2006, being the latest practicable date to the printing of this Prospectus, neither Kencana Petroleum nor any of its subsidiaries is engaged in any material litigation and arbitration, either as plaintiff or defendant, which has a material effect on the financial position of Kencana Petroleum or its subsidiaries and the Directors do not know of any proceedings pending or threatened or of any facts likely to give rise to any proceedings which might materially and adversely affect the position or business of Kencana Petroleum or its subsidiaries:

**(i) Kuala Lumpur High Court Civil Suit No. D3-22-1700-2003  
Kencana Bestwide v Petra Fabricators Sdn Bhd (as Defendant);  
Dancomech Engineering Sdn Bhd (as first third party); and  
Multi-Purpose Insurans Berhad (as second third party)**

Kencana Bestwide claimed for a sum of RM1,071,899.02 together with interest therein against the Defendant for work done and services rendered for the Bunga Raya Project. The Defendant counter claimed for the amount of RM2,122,573.08 plus interest being damages allegedly suffered due to the fact that part of the product provided by Kencana Bestwide was allegedly counterfeit. Kencana Bestwide filed a summary judgment application that was dismissed and an appeal was filed.

Kencana Bestwide obtained a summary judgment against the Defendant on 28 June 2005 ("the said judgment"). The Defendant had filed an appeal to the Court of Appeal in this respect. The Defendant had also filed a motion for a stay of execution of the said judgment granted by the High Court on 28 June 2005, which was dismissed by the High Court on 2 December 2005. The Defendant had then on 6 December 2005 filed a motion to the Court of Appeal for a stay of execution of the said judgment, which was fixed for hearing on 23 January 2006. This stay application was allowed, as was the Defendant's appeal.

The matter is now pending trial in the High Court and fixed for case management on 19 January 2007 to enable all parties to finalise, inter alia, their respective agreed and non-agreed bundles and the issues to be tried.

**(ii) Kuala Lumpur High Court Civil Suit No. S6-23-56-2004  
Petra Fabricators Sdn Bhd (as Plaintiff) v Kencana Bestwide**

The Plaintiff brought the action against Kencana Bestwide for libel where the Plaintiff alleged that the words contained in an email dated 15 July 2003 sent by Kencana Bestwide were defamatory of the Plaintiff. In its defence, Kencana Bestwide is contending that the email concerned was sent, on a without prejudice basis, to reply and rebut the Plaintiff's allegations against Kencana Bestwide in an earlier email sent by the Plaintiff on 14 July 2003. As such, the contents of the said email were not defamatory of the Plaintiff.

On 14 August 2006, the Plaintiff's solicitors indicated to the Court that the Plaintiff intends to withdraw the action against Kencana Bestwide and the court has fixed the matter for mention on 16 January 2007 pending settlement of the matter. As of todate, Kencana Bestwide's solicitors have not received any formal notification from the Plaintiff or its solicitors on the proposed withdrawal.

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**14. FURTHER STATUTORY AND OTHER GENERAL INFORMATION (Cont'd)**

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**(iii) Shah Alam High Court Originating Summons No. MT4-24-505-2006 (Kencana HL v Advance Marine Services Sdn Bhd (as Defendant))**

The Plaintiff had on 27 March 2006 filed an application in the Shah Alam High Court for a Quia Timet Injunction inter alia restraining the Defendant from presenting a petition for winding-up against the Plaintiff upon expiry of the Statutory Notice dated 15 March 2006 pursuant to Section 218 of the Companies Act, 1965 until the amount of RM599,753.02 claimed in the said Notice and which is disputed by the Plaintiff has been determined and/or resolved by the Court as being a debt actually due and owing by the Plaintiff to the Defendant ("the Injunction Application").

The Injunction Application was fixed for hearing on 6 April 2006. On this date, the Defendant provided the Court with their client's undertaking to the Court that their client would refrain from proceeding with the winding-up petition until the Plaintiff's application for a quia timet injunction is heard and disposed of.

The Injunction Application was subsequently been fixed for decision on 9 August 2006. On the said day, the Learned Judge allowed the Injunction Application with costs.

**14.6 GENERAL INFORMATION**

During the last financial year and the current financial year to date, there were no:

- (i) public take-over offers by third parties in respect of the Company's shares; and
- (ii) public take-over offers by the Company in respect of other companies' shares.

**14.7 CONSENTS**

The written consent of the Adviser and Managing Underwriter, Underwriter, Sole Placement Agent, Company Secretaries, Principal Bankers/Financiers, Solicitor, Share Registrar and Issuing House to the inclusion in this Prospectus of their names in the form and context in which such names appear have been given before the issue of this Prospectus and have not subsequently been withdrawn.

The written consent of the Auditors and Reporting Accountants to the inclusion in this Prospectus of their names, Accountants' Report and letters relating to the Consolidated Profit Forecast and the Proforma Consolidated Financial Information in the form and context in which they are contained in this Prospectus has been given before the issue of this Prospectus and have not subsequently been withdrawn.

The written consent of the Independent Business and Market Research Consultant to the inclusion in this Prospectus of its names and reports in the form and context in which they are contained in this Prospectus has been given before the issue of this Prospectus and has not subsequently been withdrawn.

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**14. FURTHER STATUTORY AND OTHER GENERAL INFORMATION (Cont'd)**

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**14.8 DOCUMENTS FOR INSPECTION**

Copies of the following documents may be inspected at registered office of Kencana Petroleum during normal business hours for a period of twelve (12) months from the date of this Prospectus:

- (a) The Memorandum and Articles of Association of the Company;
- (b) The material contracts and material agreements referred to in Sections 4.2.7 and 14.4 herein respectively;
- (c) The Directors' Report and Accountants' Report as set out in Sections 13 and 10 herein respectively;
- (d) The Reporting Accountants' letters relating to the Consolidated Profit Forecast for financial year ending 31 July 2007 and Proforma Consolidated Financial Information as at 31 July 2006 as set out in Sections 9.8 and 9.4 herein respectively;
- (e) The audited financial statements of Kencana HL and its subsidiaries for the past three (3) financial years ended 31 July 2006;
- (f) The audited financial statements of Kencana Bestwide and its subsidiaries for the past three (3) financial years ended 31 December 2005, for the seven (7) months financial periods ended 31 July 2005 and 31 July 2006;
- (g) Independent Business and Market Research Consultants' Report dated 28 September 2005 and updates to the Independent Business and Market Research Consultants' Report dated 16 October 2006 prepared by Vital Factor Consulting Sdn Bhd and its summary thereof as set out in Section 11 herein;
- (h) The writ and cause papers in respect of the material litigation and arbitration referred to in Section 14.5 herein;
- (i) The letters of consent referred to in Section 14.7 herein; and
- (j) Bye-Laws of the ESOS as set out in Section 12 herein.

**14.9 RESPONSIBILITY STATEMENT**

This Prospectus has been seen and approved by the Directors and Promoters of Kencana Petroleum and they collectively and individually accept full responsibility for the accuracy of the information contained herein and confirm, having made all reasonable enquiries, that to the best of their knowledge and belief, there are no false or misleading statements or other facts the omission of which would make any statement herein false or misleading. The Directors hereby accept full responsibility for the profit forecast included in this Prospectus and confirm that the profit forecast has been prepared based on assumptions made.

AmMerchant Bank acknowledge that, based on all available information and to the best of their knowledge and belief, this Prospectus constitutes a full and true disclosure of all material facts concerning the IPO and are satisfied that any profit forecast (for which the Directors of Kencana Petroleum are fully responsible) prepared for inclusion in the Prospectus have been stated by the Directors after due and careful enquiry and have been duly reviewed by the Reporting Accountants.

## 15. UNDERWRITING AGREEMENT

### 15.1 SALIENT TERMS OF THE UNDERWRITING AGREEMENT

The salient clauses of the Underwriting Agreement dated 16 October 2006 entered into amongst Kencana Petroleum, the Managing Underwriter and the Underwriter, which may allow the Managing Underwriter and/or the Underwriter to withdraw from its obligations under the agreement as extracted from the Underwriting Agreement, are set out below.

All expressions set out in the ensuing section shall have the same meaning as the Underwriting Agreement.

#### 5. TERMINATION

5.1 **Non-Fulfilment of Conditions Precedent:** If any of the conditions precedent contained in clause 4.1 of the Underwriting Agreement is not satisfied by the date falling three (3) Business Days after the Closing Date, the Managing Underwriter shall thereupon be entitled, subject to Clause 5.2 below, to terminate of the Underwriting Agreement by notice in writing to the Company and in that event the parties thereto shall, save and except for the costs and expenses incurred prior to or in connection with such termination, in particular the costs and expenses referred to in Clause 6.3 therein, and any rights or liabilities of the Company or such Underwriter under Clause 3 of the Underwriting Agreement, be released and discharged from their respective obligations thereunder PROVIDED THAT such Underwriter may in its discretion waive compliance with any provisions of this Clause.

5.2 **Terminating Events:** Notwithstanding anything herein contained, the Managing Underwriter and/or the Underwriter may at any time before the Closing Date by notice in writing to the Company terminate its underwriting commitments under the Underwriting Agreement if:

- (a) there is any breach by the Company of the warranties, representations or undertakings therein set out or any failure on the part of the Company to perform any of its obligations therein contained, which has a Material Adverse Effect and is not being capable of remedy or, if capable of remedy, is not remedied by the Company to the reasonable satisfaction of the Managing Underwriter within ten (10) Market Days of written notice of such breach being given by the Company is notified of such breach by the Managing Underwriter;
- (b) any of the conditions precedent in Clause 4 of the Underwriting Agreement are not satisfied by the Closing Date;
- (c) if the Company withholds information of a material nature from the Underwriter, which is required to be disclosed pursuant to the Underwriting Agreement which would have or can be expected to have a Material Adverse Effect;
- (d) the Managing Underwriter and after prior consultation with the Company, decides that there shall have occurred, happened or come into effect any Material Adverse Effect and / or any material change, or any development involving a prospective change, in national or international monetary, financial, economic or political conditions or exchange control or currency exchange rates (including but not limited to conditions on the stock market, in Malaysia or overseas, foreign exchange market or money market or with regard to inter-bank offer or interest rates both in Malaysia and overseas) or the occurrence of any combination of any of the foregoing, which would have or can have a Material Adverse Effect;

**15. UNDERWRITING AGREEMENT (Cont'd)**

- (e) the Managing Underwriter and after prior consultation with the Company, decides that there shall be any change in law, regulation, directive, policy or ruling in Malaysia or any event or series of events beyond the reasonable control of the Underwriter (including without limitation, acts of God, national disorder, declaration of a state of national emergency, act of terrorism, strikes, lock-outs, fire, explosion, flooding, civil commotion, sabotage, acts of war or accidents) which would have or can reasonably be expected to have a Material Adverse Effect;
- (f) trading of securities on Bursa Securities being suspended for three (3) consecutive Market Days or more;
- (g) the Managing Underwriter in its reasonable opinion and after prior consultation with the Company, decides that there not having been, on or prior to the Closing Date, any adverse and material change or any development reasonably likely to involve a prospective adverse, material and sustained change in the condition (financial or otherwise) of the Company from that set forth in the Prospectus which is material in the context of the Initial Public Offering, nor the occurrence of any event rendering untrue or incorrect to an extent which is material as aforesaid any representations or warranties contained in the Underwriting Agreement as though they had been given or made on such date;
- (h) the Managing Underwriter and the Company mutually agree, after prior consultation with each other, that the Listing Scheme shall not take place within six (6) weeks from the date of the Prospectus or such extended date as may be agreed by the Managing Underwriter and the Company; or
- (i) there shall occur any event or series of events by reasons of Force Majeure which would have or is likely to have the effect of making any material part of the Underwriting Agreement incapable of performance.

5.3 In the event that the Underwriting Agreement is terminated pursuant to Clause 5.2(d) and Clause 5.2(e), the Underwriter and the Company may agree to defer the Initial Public Offering by amending the terms of the Initial Public Offering or of the Underwriting Agreement and may enter (but shall not be obligated to) into a new underwriting agreement accordingly."

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