9.4 REPORTING ACCOUNTANTS' LETTER ON THE PROFORMA CONSOLIDATED FINANCIAL INFORMATION (Prepared for inclusion in the Prospectus)

KPMG

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Selangor Darul Ehsan

12 October 2006

Dear Sirs

Kencana Petroleum Berhad
Reporting accountants' letter on the proforma consolidated financial information

We report on the proforma consolidated financial information of Kencana Petroleum Berhad and its subsidiaries ("Kencana Petroleum Group") as set out in Paragraph 9.1 to 9.3 of the Prospectus dated 21 November 2006 ("the Prospectus"). The proforma consolidated financial information have been prepared for illustrative purposes only on the basis of assumptions as set out in the attachment and after making certain adjustments to show what:

i) the financial results of Kencana Petroleum Group for the financial years ended 31 July 2004, 2005 and 2006 would have been if the group structure as of the date of the Prospectus had been in place since the beginning of the years being reported on;

ii) the financial position of Kencana Petroleum Group as of 31 July 2006 would have been if the group structure as of the date of the Prospectus had been in place on that date, adjusted for the proceeds of the proposed public issue, capitalisation of advances from Khasera Baru Sdn Bhd, proposed utilisation of funds and employees' share option scheme; and

iii) the cashflows of Kencana Petroleum Group for the year ended 31 July 2006 would have been if the group structure as of the date of the Prospectus had been in place since the beginning of the financial year ended 31 July 2006.

The proforma consolidated financial information, because of its nature, may not give a true picture of Kencana Petroleum Group's actual financial results, financial position and cashflows.

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It is the responsibility solely of the Board of Directors of Kencana Petroleum to prepare the proforma consolidated financial information. Our responsibility is to form an opinion on the proforma consolidated financial information and to report our opinion to you based on our work.

Our work, which involved no independent examination of any of the underlying financial information, consisted primarily of comparing the proforma consolidated financial information to the audited financial statements of Kencana Petroleum and its subsidiaries for the years ended 31 July 2004, 2005 and 2006 and considering the evidence supporting the adjustments, and discussing the proforma consolidated financial information with the Directors of Kencana Petroleum.

In our opinion,

i) the proforma consolidated financial information have been properly prepared from the audited financial statements of Kencana Petroleum and its subsidiaries, which were prepared in accordance with approved accounting standards in Malaysia;

ii) such basis is consistent with the accounting policies adopted by Kencana Petroleum and its subsidiaries;

iii) each material adjustment made to the information used in the preparation of the proforma consolidated financial information is appropriate for the purposes of preparing the proforma consolidated financial information; and

iv) the proforma consolidated financial information have been properly prepared on the basis of assumptions stated in the attachment.

Yours faithfully

KPMG

KPMG
Firm No. AF 0758
Chartered Accountants

Foong Mun Kong
Partner
Approval Number: 2613/12/06(J)

KENCANA PETROLEUM BERHAD ("Kencana Petroleum")
AND ITS SUBSIDIARIES (" Kencana Petroleum Group")

NOTES TO THE PROFORMA CONSOLIDATED FINANCIAL INFORMATION
FOR THE YEARS ENDED 31 JULY 2004, 2005 AND 2006

1. Basis of preparation of proforma consolidated financial information

1.1 The proforma consolidated financial information have been prepared to illustrate what:

a) the financial results of Kencana Petroleum Group for the financial years ended 31 July 2004, 2005 and 2006 would have been if the group structure as of the date of the Prospectus had been in place since the beginning of the years being reported on;

b) the financial position of Kencana Petroleum Group as of 31 July 2006 would have been if the group structure as of the date of the Prospectus had been in place on that date, adjusted for the proceeds of the proposed public issue, capitalisation of advances from Khasera Baru Sdn Bhd, proposed utilisation of funds and employees' share option scheme; and

c) the cashflows of Kencana Petroleum Group for the financial year ended 31 July 2006 would have been if the group structure as of the date of the Prospectus had been in place since the beginning of the financial year ended 31 July 2006.

1.2 The proforma consolidated financial information have been prepared based on the audited financial information of Kencana Petroleum and its subsidiaries for the financial years ended 31 July 2004, 2005 and 2006 and using the bases and the accounting principles consistent with those adopted in the audited consolidated financial information, after giving effect to the proforma adjustments considered appropriate.

1.3 For illustrative purposes, it was assumed that the acquisition of Kencana HL Sdn Bhd and its subsidiaries and Kencana Bestwide Sdn Bhd and its subsidiary took place prior to 1 August 2003 in arriving at the proforma consolidated income statement for the years ended 31 July 2004, 2005 and 2006.

1.4 The proforma consolidated financial information have been prepared for illustrative purposes only and, because of their nature, may not give a true picture of the actual financial position, results of operations and cash flows of the Kencana Petroleum Group.

1.5 The statutory audited financial information of Kencana Petroleum and its subsidiaries for the financial years ended 31 July 2004, 2005 and 2006 were prepared in accordance with approved accounting standards in Malaysia.

9.5 MANAGEMENT'S DISCUSSION AND ANALYSIS OF PAST FINANCIAL PERFORMANCES AND RESULTS OF OPERATIONS

The following management's discussion and analysis of the Kencana Petroleum Group's past financial performances and results of operations should be read in conjunction with the proforma consolidated financial information and the related notes thereon for the past three (3) financial years ended 31 July 2006 included in Sections 9.1, 9.2, 9.3 and 9.4 herein. This discussion and analysis contain data derived from the audited financial statements of Kencana Petroleum as well as forward-looking statements that involve risks and uncertainties. The results may differ significantly from those projected in the forward-looking statements. Factors that may cause future results to differ significantly from those included in the forward-looking statements include, but are not limited to, those discussed below and elsewhere in this Prospectus, particularly the risk factors as set out in Section 3 of this Prospectus.

9.5.1 Trend Information

As at 11 October 2006, being the latest practicable date, to the best of Kencana Petroleum Group's knowledge and belief, Kencana Petroleum's conditions and operations have not been and are not expected to be affected by any of the following:

(a) Known trends, demands, commitments, events or uncertainties that have had or that we reasonably expect to have, a material favourable or unfavourable impact on Kencana Petroleum Group's financial performance, position and operations other than those discussed in this section and in Section 3 and Section 4.5 of this Prospectus;

(b) Material commitment for capital expenditure save as disclosed in Section 9.6 herein;

(c) Unusual, infrequent events or transactions or any significant economic changes that have materially affected the financial performance, position and operations of Kencana Petroleum Group save as disclosed in this section and in Section 3 of this Prospectus;

(d) Known trends, demands, commitments, events or uncertainties that have resulted in a substantial increase in Kencana Petroleum Group's revenue save for those that had been disclosed in this section and future plans, strategies and prospects as set out in Section 4.8 of this Prospectus; and

(e) Known trends, demands, commitments, events or uncertainties that are reasonably likely to make Kencana Petroleum Group's historical financial statements not indicative of the future financial performance and position other than those disclosed in this section and in Section 3 of this Prospectus.

The Group's business and financial prospects including significant trends in revenue and costs are discussed below and in Section 4.8 of this Prospectus and Sections 9.5.2(d) and 9.9 herein. Further discussion on the overview of the oil and gas industry, its prospects and outlook are elaborated in Sections 4.5.1 to 4.5.6 of this Prospectus.

The Board of Directors of Kencana Petroleum is optimistic about the future prospect of the Group given the favourable outlook of the fabricated metal structure industry within the oil and gas sector set out in Section 4.5.6 of this Prospectus, Kencana Petroleum Group's competitive strengths set out in Section 4.2.2 of this Prospectus and the Group's dedication to implement the future plans and strategies set out in Section 4.8 of this Prospectus. The Group presently has an order book of approximately RM1,306.6 million with approximately RM244.0 million has been recognised as revenue as of 11 October 2006.

9.5.2 Segmental Analysis

The following is the segmental analysis by company of the proforma consolidated results of Kencana Petroleum Group for the past three (3) financial years ended 31 July 2006. The proforma consolidated results are provided for illustrative purposes only and on the assumption that the current structure of Kencana Petroleum Group has been in existence throughout the financial years under review.

(a) Revenue

Segmental Analysis by Companies

The table below sets forth the breakdown of Kencana Petroleum Group's revenue by subsidiaries for the respective financial years:

Financial Year Ended 31 July	2004 (RM'000)	2005 (RM'000)	2006 (RM'000)
Kencana Petroleum	-	-	-
Kencana HL	146,664	225,553	385,297
Kencana Marine	3,188	8,135	24,491
Kencana Metering	757	5,776	9,225
Kencana Infrastructure	2,336	18,450	14,464
Kencana Bestwide	30,935	54,631	49,240
Kencana Pinewell	5,169	7,828	17,563
	189,049	320,373	500,280
Consolidated adjustments	(8,442)	(49,559)	(62,945)
Proforma consolidated revenue	**180,607**	**270,814**	**437,335**

Segmental Analysis by Principal Markets

The table below sets forth the breakdown of Kencana Petroleum Group's revenue by principal markets for the respective financial years:

Financial Year Ended 31 July	2004 (RM'000)	2005 (RM'000)	2006 (RM'000)
Local	165,659	180,545	198,910
Overseas	14,948	90,269	238,425
Proforma consolidated revenue	**180,607**	**270,814**	**437,335**

Segmental Analysis by Activities

The table below sets forth the breakdown of Kencana Petroleum Group's revenue by activity for the respective financial years:

Financial Year Ended 31 July	2004 (RM'000)	2005 (RM'000)	2006 (RM'000)
Oil and gas	84,311	200,633	391,881
Non oil and gas	96,296	70,181	45,454
Proforma consolidated revenue	**180,607**	**270,814**	**437,335**

(b) Profit after Taxation

Segmental Analysis by Companies

The table below sets forth the breakdown of Kencana Petroleum Group's profit after taxation by subsidiaries for the respective financial years:

Financial Year Ended 31 July	2004 (RM'000)	2005 (RM'000)	2006 (RM'000)
Kencana Petroleum	-	(4)	(3)
Kencana HL	13,309	13,513	24,669
Kencana Marine	62	211	48
Kencana Metering	12	442	11
Kencana Infrastructure	25	1,253	(2,070)
Kencana Bestwide	3,857	4,952	3,178
Kencana Steelworks	-	-	(2)
Kencana Pinewell	503	1,266	603
	17,768	21,633	26,434
Share of results of associated companies	159	217	201
Share of results of jointly controlled entities	(132)	(92)	208
	17,795	21,758	26,843
Consolidated adjustments	77	(480)	(127)
Proforma consolidated net profit	**17,872**	**21,278**	**26,716**

(c) Commentary on Revenue and Profit After Taxation

Financial year ended 31 July 2004 vs financial year ended 31 July 2005

The increase in revenue by approximately 49.9% during the financial year ended 31 July 2005 was mainly due to the increase in oil and gas engineering and fabrication projects. The additional projects secured during the financial year ended 31 July 2005 include the EPCC of a central oil processing facility in Sudan. The increase in revenue in 2005 was also attributed by the expansion in the capacity of the Lumut Fabrication Yard, which enabled the Group to secure both local and overseas projects. The upward trend in profit after taxation is in line with the trend reflected in revenue. The decrease in profit after taxation margin from approximately 9.9% in 2004 to approximately 7.9% in 2005 was attributed to the increase in operating expenses and finance costs.

Financial year ended 31 July 2005 vs financial year ended 31 July 2006

Kencana Petroleum Group experienced significant growth in revenue and profit after taxation during the financial year ended 31 July 2006, increasing by approximately 61.5% and approximately 25.6% respectively. The increase in revenue has resulted primarily from the significant growth in the oil and gas engineering and fabrication projects. Revenue from oil and gas activities increased by approximately 95.3% during the financial year ended 31 July 2006, from approximately RM200.6 million to approximately RM391.9 million. The Lumut Fabrication Yard development and capacity expansion costs have resulted in the increase in depreciation expenses and other related expenditure. This was reflected in the slight decrease in profit after taxation margin during the financial year ended 31 July 2006.

(d) Significant Factors Affecting Net Revenue and Operating Profits of the Group

The main factors which have affected and are expected to continue to affect Kencana Petroleum Group's revenue and operating profits include but not limited to the following:

(i) Level of Oil Prices

The Group's revenue is dependent on the ability of the Group to secure oil and gas engineering and fabrication contracts. The level of oil exploration, development and production activities in the oil and gas industry has a direct impact on Kencana Petroleum Group's operations.

One of the major factors which may affect the level of oil exploration, development and production activities is the level of oil prices as discussed in Section 3(a)(i) of this Prospectus. Oil and gas industry activity is likely to continue to grow with the sustained high level of demand for hydrocarbons as evidenced by the sustained high global market price for hydrocarbons. As set out in Section 4.5.5 of this Prospectus, the level of investment made by Petronas and PSC operators in the exploration and production of oil and gas industry in Malaysia increased at an average annual rate of 14.8% between the financial years ended 31 March 2000 to 31 March 2005. During the financial year ended 31 March 2005, investment increased by approximately 9.8% with the level of investment reaching approximately RM12.0 million.

(ii) Competition and Contracts Secured

Kencana Petroleum Group provides integrated engineering and fabrication of production facilities for the oil and gas industry. Engineering and fabrication of oil and gas production facilities represents the main contribution to Kencana Petroleum Group's profits for the three (3) financial years ended 31 July 2006.

Kencana Petroleum Group's revenue and profitability are largely dependent on contracts secured by the Group and completed within the expected contract sum and profit margin. Furthermore, the Group faces competition from other local licensed service providers in the oil and gas industry. As detailed out in Section 4.6 of this Prospectus, the Group's major customers based on revenue for three (3) financial years ended 31 July 2006 are White Nile (5B) Petroleum Operating Company Ltd, Petronas Carigali Sdn Bhd, Nam Fatt Construction Sdn Bhd and Global Process Systems Sdn Bhd. Kencana Petroleum Group has good business relationship with these customers

Kencana Petroleum Group has a wide range of customer base in the oil and gas industry including Petronas group of companies, Sarawak Shell Berhad, Sabah Shell Petroleum Co Ltd, ExxonMobil Exploration and Production Malaysia Inc, Murphy Sarawak Oil Co. Ltd, Nippon Oil Exploration (Malaysia), Ltd and Talisman Malaysia Limited. The Group has already begun to service overseas customers by providing its oil and gas services to companies such as Clough Projects International Pty Ltd (Australia), Roc Oil (WA) Pty Ltd (Australia), UOP LLC (USA), Kawasaki Heavy Industries, Ltd. (Japan), Global Process Systems Sdn Bhd (UAE) and ABB Industry Pte Ltd (Singapore).

With Kencana Petroleum Group's proven track record, competent personnel, competitive advantages and capabilities and the positive outlook of oil and gas industry, Kencana Petroleum is well positioned and is confident of being able to secure future projects from its existing and potential customers and expand its business overseas.

(iii) Overseas Operational Risks

Kencana Petroleum has already begun to expand its oil and gas product and service activities in Sudan and Malaysia-Thailand Joint Development Area and intends to further expand into Thailand, South Asia, Australasia, North Africa, and the Middle East. As various multinational oilfield operators have operations in different parts of the world, it is imminent that the Group ventures overseas to continue to provide oil and gas product and services to the operators and sustain future growth.

Changes in political and economic conditions in Thailand, South Asia, Australasia, North Africa and the Middle East could materially and/or adversely affect the profitability and business prospects of Kencana Petroleum Group. These political and economic uncertainties include, but not limited to, the changes in political leadership, expropriation, nationalisation, changes in interest rates or tax, risks of war, global economic downturn. Kencana Petroleum's revenue and operating profits for the (3) years financial ended 31 July 2006 has not been affected by the abovementioned overseas political and economic conditions.

(iv) Fluctuation in Prices of Raw Materials

The market price of steel products has increased since early 2002, due primarily to an increase in demand for steel in China. As an indicator, the global steel price index in September 2006 has increased by approximately 140% compared to early 2002.

Kencana Petroleum Group utilises a significant amount of steel products in the fabrication of oil and gas production facilities, modules, process skid systems and other structures and equipment. During the financial year ended 31 July 2006, purchases and services incurred of steel products accounted for approximately 25.0% of the total proforma purchases by the Group. The Group sources approximately 49.6% of its steel materials from overseas. As such, there is a risk that the increase in the price of steel products may have a negative impact on the Group's business.

In mitigation, Kencana Petroleum Group is able to pass on increases in the price of steel to its customers, as it fabricates on a project basis. Furthermore, Kencana Petroleum Group can vary the price with which it enters into future projects in accordance with fluctuations in the market price for steel.

(v) Delay in Completion of Projects

Completion of a project on time is dependent on many external factors which may fall beyond the control of Kencana Petroleum Group, such as obtaining approvals from various regulatory authorities as scheduled, sourcing and securing quality construction materials in adequate amount, satisfactory performance of contractors and favourable working weather condition for fabrication works. Any delay caused by any of these factors may have a direct impact on its profitability.

Kencana Petroleum Group has an experienced and capable project management team to execute, supervise and manage the projects and proper planning is essential for all major projects.

(e) Tax Consideration

For the three (3) financial years ended 31 July 2006, the effective tax rate for the years under review are lower than statutory tax rate mainly due to availability of reinvestment allowances. The effective tax rate for the three (3) financial years ended 31 July 2006 are approximately 24.6%, 25.0% and 8.2% respectively. The reduction in effective tax rate for the financial year ended 31 July 2006 by approximately 16.8% from financial year ended 31 July 2005 was mainly due to the availability of reinvestment allowance and reversal of overprovision of taxation made in prior year.

The Inland Revenue Board ("IRB") vide its letter 9 September 2005 had approved Kencana HL's application for sixteen (16) instalment payments for the settlement of the Company's outstanding tax liability of approximately RM4.3 million due to the IRB for year of assessment 2002 to year of assessment 2005. Kencana HL has submitted sixteen (16) post dated cheques to IRB amounting to approximately RM4.3 million. As at 11 October 2006, thirteen (13) cheques amounting to approximately RM3.5 million were cleared. The instalment plan covers all outstanding tax liabilities/ penalties up to Year of Assessment ("YA") 2004 including the YA 2005 late payment of tax estimates.

(f) Impact of Foreign Exchange / Interest Rates / Commodity Prices on Operating Profits

There is no material impact of foreign exchange and commodity prices on the Group's historical profits for the past three (3) financial years ended 31 July 2006.

Interest expense increased by approximately 115.1% from approximately RM1.2 million in financial year ended 31 July 2004 to approximately RM2.5 million in financial year ended 31 July 2005 mainly due to increase in short term borrowings for working capital purposes. In respect of financial year ended 31 July 2006, interest expense increased by approximately 82.2% or approximately RM2.1 million from financial year ended 31 July 2005.

(g) Exceptional and Extraordinary Items

There were no exceptional and extraordinary items for the past three (3) financial years ended 31 July 2006.

9.5.3 Liquidity and Capital Resources

(a) Working Capital

Kencana Petroleum Group has been financing its operations through cash generated from its operations and external source of funds. The Group's external source of funds mainly comprises of shareholders' equity and bank borrowings. As at 11 October 2006, the Group material sources of unutilised liquidity comprised of cash and bank balances and total borrowings of approximately RM37.5 million and approximately RM88.2 million respectively.

The Directors of Kencana Petroleum are of the opinion that after taking into account the consolidated cashflow forecast, banking facilities available and the gross proceeds from the Issue Shares, the Group will have adequate working capital for a period of twelve (12) months from the date of this Prospectus.

A summary of Kencana Petroleum Group's proforma cash flow for the financial year ended 31 July 2006 based on the proforma consolidated cash flow statement as disclosed in Section 9.3 herein is set out below:

	Financial year ended 31 July 2006 RM'000
Net cash used in operating activities	(4,175)
Net cash used in investing activities	(28,705)
Net cash from financing activities	20,258
Net decrease in cash and cash equivalents	(12,622)
Cash and cash equivalents at beginning of year	33,939
Cash and cash equivalents at end of the year	21,317

Net Cash Flows from Operating Activities

During the financial year ended 31 July 2006, Kencana Petroleum Group generated net cash from operations before adjustments for working capital of approximately RM39.6 million. After adjustments for increase in working capital of approximately RM33.0 million, the Group's cash generated from operations was approximately RM6.6 million. The amount of interest and tax paid during the financial year was approximately RM4.6 million and approximately RM6.2 million respectively.

Net Cash Flows from Investing Activities

During the financial year ended 31 July 2006, the net cash used in investing activities was approximately RM28.7 million. The amount was principally used to purchase property, plant and equipment in connection with the development and expansion of the Lumut Fabrication Yard. The Group financed the capital expenditure via internal cash flows, cash from shareholders and bank borrowings.

Net Cash Flows from Financing Activities

Net cash from financing activities during the financial year ended 31 July 2006 was approximately RM20.3 million. Net proceeds from drawdown of new borrowings were approximately RM20.3 million. During the financial year ended 31 July 2006, the Group pledged an additional RM7.9 million for credit facilities granted to the Group. Net amount received from shareholders in the form of advances was approximately RM7.2 million.

(b) Borrowings

As at 11 October 2006, being the last practicable date prior to the printing of this Prospectus, the total outstanding bank borrowings in the form of term loans, bank overdrafts, revolving credit facilities, banker's acceptance and hire purchase financing amounted to approximately RM88.2 million. The borrowings can be analysed further as follows:

Outstanding Borrowings	Amount (RM 'million)
Interest bearing short term borrowings	74.4
Interest bearing long term borrowings	13.8
Total borrowings	88.2
Gearing ratio as at 11 October 2006 (Note 1)	0.83
Gearing ratio after IPO (Note 2)	0.31

Note:

(1) Based on proforma shareholders' funds as at 31 July 2006 as per Statement of Assets and Liabilities set out in Section 9.2 herein.

(2) Based on proforma shareholders' fund as at 31 July 2006 at Stage 2 of the Proforma Balance Sheets set out in Section 9.2 herein and assuming repayment of borrowings amounting to RM25.0 million from the total gross proceeds to be raised from the IPO.

The Group has not defaulted on payments of either interest and/or principal sums in respect of any borrowings throughout the past one (1) financial year thereof immediately preceding the date of this Prospectus. There are also no foreign borrowings in Kencana Petroleum Group.

(c) Key Financial Ratios

The key financial ratios of the Group are as follows:-

	Financial Year Ended 31 July		
	2004	2005	2006
Trade receivable turnover (days)	94	76	51
Trade payable turnover (days)	96	95	57

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9.6 MATERIAL COMMITMENTS, MATERIAL LITIGATION, CONTINGENT LIABILITIES AND TRADE DEBTORS

(i) Material Commitments

Save as disclosed below, as at 11 October 2006, being the latest practicable date prior to the printing of this Prospectus, the Directors of Kencana Petroleum are not aware of any material commitments for capital expenditure, which upon becoming enforceable, may have a material effect on the financial position of the Group:

Capital Commitments	Amount (RM'000)
Approved and contracted for:	
Purchase of plant and equipment	2,712

The Group funds the above capital commitment from internally generated funds/bank borrowings.

(ii) Material Litigation

Save as disclosed in Section 14.5 of this Prospectus, as at 11 October 2006, being the latest practicable date prior to the printing of this Prospectus, the Group is not engaged whether as plaintiff or defendant in any legal action, proceeding, arbitration or prosecution for any criminal offence, which has a material effect on the financial position of the Group and the Directors of Kencana Petroleum do not know of any proceedings pending or threatened or of any fact likely to give rise to any proceedings which might materially and adversely affect the financial position or business of Kencana Petroleum Group.

(iii) Contingent Liabilities

Save as disclosed below and as at 11 October 2006, being the latest practicable date prior to the printing of this Prospectus, the Directors of Kencana Petroleum are not aware of any material contingent liabilities incurred by Kencana Petroleum or its subsidiaries, which upon becoming enforceable, may have a material effect on the financial position of Kencana Petroleum or its subsidiaries:

Contingent Liabilities	Amount (RM'000)
Legal claims	2,123
Corporate guarantee given by:	
- Kencana Bestwide (Note 1)	1,500
- Kencana HL (Note 2)	24,642
	28,265

Notes:

(1) The above corporate guarantee relates to unsecured corporate guarantee given by Kencana Bestwide to a financial institution for credit facilities granted to BWE, an associated company of Kencana Bestwide.

(2) Kencana HL provided an unsecured corporate guarantee of USD6,665,530 (translated to RM at the rate of 1 USD:RM3.697 as at 11 October 2006 (source: Bank Negara Malaysia)) to a financial institution for credit facilities granted to CMP, previously an associated company of Kencana HL. Kencana HL has disposed its entire equity interest in CMP.

The above legal claims relate to the material litigation as disclosed in Section 14.5(i) and (ii) of this Prospectus.

(iv) Trade Debtors

An ageing analysis of the trade debtors of the Group (excluding inter-company trade debtors) as at 31 July 2006 is set out below:

As at 31 July 2006	Ageing Analysis							Total
	0 – 30 days RM'000	31 – 60 days RM'000	61 – 90 days RM'000	91 - 120 days RM'000	121-150 days RM'000	151 - 180 days RM'000	> 180 days RM'000	RM'000
Group trade debtors	29,925	12,389	6,503	3,343	523	757	9,871	63,311
Provision for doubtful debts: Debtors > 180 days	-	-	-	(459)	(6)	-	(2,157)	(2,622)
Net Group trade debtors	**29,925**	**12,389**	**6,503**	**2,884**	**517**	**757**	**7,714**	**60,689**
Percentage of total Group trade debtors (%)	**49.3**	**20.4**	**10.7**	**4.8**	**0.9**	**1.2**	**12.7**	**100.0**

The normal credit period given by Kencana Petroleum Group to its trade debtors ranges from 30 days to 60 days.

As at 31 July 2006, there were RM9.871 million trade debtors (excluding inter-company trade debtors within the Group) of the Group exceeding six (6) months. Of the trade debtors exceeding six (6) months, approximately RM2.157 million has been provided for as doubtful debts. The balance of RM7.714 million was not provided for due to the following reasons:

(i) RM0.406 million of the trade debtors have been settled up to 11 September 2006.

(ii) RM7.308 million represent the retention sum for various projects, which the retention sum will be collected after issuance of the respective projects' statements of final account.

The ageing of the above retention sum is as follows:-

As at 31 July 2006	Ageing Analysis				Total
	6 – 12 months RM'000	12 – 18 months RM'000	18 – 24 months RM'000	24 – 36 months RM'000	RM'000
Retention sum	362	782	3,568	2,596	7,308

In respect of the above retention sum, which is exceeding six (6) months amounting to RM7.308 million, the Directors of Kencana Petroleum hereby confirmed that the retention sum is not in dispute or under legal action and are of opinion that the retention sum is recoverable.

The Directors of Kencana Petroleum are of opinion that the trade receivables exceeding credit period (net of doubtful debts provisions) are recoverable after taking into account the stable relationship between Kencana Petroleum Group and these customers and various credit control measures undertaken by the Group to minimise customers default.

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9.7 CONSOLIDATED PROFIT FORECAST AND ASSUMPTIONS FOR THE FINANCIAL YEAR ENDING 31 JULY 2007

The Directors of Kencana Petroleum forecast that the consolidated profit after taxation of the Kencana Petroleum Group for the financial year ending 31 July 2007 is as follows:

Financial year ending 31 July	**Forecast 2007** (Note 4) **(RM'000)**
Revenue	887,685
Consolidated profit before taxation	59,079
Less: Taxation	(13,841)
Consolidated profit after taxation	45,238
Based on issued and paid-up share capital upon completion of Listing Scheme	
- Number of Shares assumed in issue ('000) (2)	880,000
- Basic net earnings per share (sen)	5.14
- Net PE Multiple based on IPO Price (times)	7.98
Based on issued and paid-up share capital upon completion of Listing Scheme and ESOS ('000)	
- Number of Kencana Petroleum Shares assumed in issue ('000) (3)	924,000
- Diluted net earnings per share (sen)	4.90
- Net PE Multiple based on IPO Price (times)	8.37

Notes:

(1) There is no minority interest forecasted for the financial year ending 31 July 2007.

(2) Based on the issued and paid up share capital of 880,000,000 Shares immediately after completion of the Listing Scheme.

(3) Based on the enlarged issued and paid up share capital of 880,000,000 Kencana Petroleum Shares immediately after completion of the Listing Scheme and assuming the total number of Kencana Petroleum Shares to be issued pursuant to the ESOS is 44,000,000 Kencana Petroleum Shares (representing 5% of the enlarged issued and paid up share capital of Kencana Petroleum).

(4) Kencana Petroleum obtained control over the financial and operating policies of Kencana HL Group and Kencana Bestwide Group on 20 September 2006, in accordance with the terms of the agreements referred to in Section 14.4(g) and Section 14.4(b) of this Prospectus respectively. The forecast above takes into account the forecast results of the Kencana Petroleum Group from 20 September 2006 to 31 July 2007.

The principal bases and assumptions upon which the consolidated profit forecast have been prepared are set out in Section 9.8 herein.

9.8 REPORTING ACCOUNTANTS' LETTER ON THE CONSOLIDATED PROFIT FORECAST OF KENCANA PETROLEUM GROUP FOR THE FINANCIAL YEAR ENDING 31 JULY 2007 (Prepared for inclusion in the Prospectus)

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The Board of Directors
Kencana Petroleum Berhad
Lot 50, Jalan BRP 8/2
Persiaran Bukit Rahman Putra 3
Perusahaan Bukit Rahman Putra
47000 Sungai Buloh
Selangor Darul Ehsan

12 October 2006

Dear Sirs

Reporting accountants' letter on the consolidated profit forecast for the financial year ending 31 July 2007

We have reviewed the consolidated profit forecast of Kencana Petroleum Berhad ("Kencana Petroleum") and its subsidiaries ("Kencana Petroleum Group") for the financial year ending 31 July 2007 as set out in the accompanying statement (which we have stamped for the purpose of identification) in accordance with the Standard on Auditing (ISAE 3400) applicable to the review of forecasts. The consolidated profit forecast has been prepared for inclusion in the Prospectus to be dated 21 November 2006 in connection with the proposed listing of Kencana Petroleum on the Main Board of Bursa Malaysia Securities Berhad ("Bursa Securities") and should not be relied on for any other purposes.

Our review has been undertaken to enable us to form an opinion as to whether the consolidated profit forecast is, in all material respects, properly prepared on the basis of the assumptions made by the Directors and is presented on a basis consistent with the accounting policies adopted and disclosed by Kencana Petroleum Berhad, Kencana HL Sdn Bhd and its subsidiaries ("Kencana HL Group") and Kencana Bestwide Sdn Bhd and its subsidiary ("Kencana Bestwide Group") in their audited financial statements for the financial year / period ended 31 July 2006 and in accordance with the financial reporting standards required to be adopted by the Kencana Petroleum Group effective 1 August 2006 (by the Malaysian Accounting Standards Board). The Directors of Kencana Petroleum Berhad are solely responsible for the preparation and presentation of the consolidated profit forecast and the assumptions on which the consolidated profit forecast is based.

Forecast, in this context, means prospective financial information prepared on the basis of assumptions as to future events which management expects to take place and the actions which management expects to take as of the date the information is prepared (best-estimate assumptions). While information may be available to support the assumptions on which forecast is based, such information is generally future oriented and therefore uncertain. Thus, actual results are likely to be different from the forecast since anticipated events frequently do not occur as expected and the variation could be material.

Subject to the matter stated in the preceding paragraph:-

(i) nothing has come to our attention which causes us to believe that the assumptions made by the Directors, as set out in the accompanying statement, do not provide a reasonable basis for the preparation of the consolidated profit forecast; and

(ii) in our opinion, the consolidated profit forecast, so far as the calculations are concerned, is properly prepared on the basis of the assumptions made by the Directors and is presented on a basis consistent with the accounting policies adopted and disclosed by Kencana Petroleum Berhad, Kencana HL Group and Kencana Bestwide Group in its audited financial statements for the financial year / period ended 31 July 2006 and in accordance with the financial reporting standards required to be adopted by the Kencana Petroleum Group effective 1 August 2006 (by the Malaysian Accounting Standards Board).

Yours faithfully

KPMG

KPMG
Firm No. AF 0758
Chartered Accountants

Foong Mun Kong
Partner
Approval Number: 2613/12/06(J)

APPENDIX 1

**KENCANA PETROLEUM BERHAD ("Kencana Petroleum")
AND ITS SUBSIDIARIES ("Kencana Petroleum Group")**

**CONSOLIDATED PROFIT FORECAST FOR THE YEAR ENDING
31 JULY 2007**

At the time of preparing the consolidated profit forecast, the Directors forecast that the consolidated profit after taxation of the Kencana Petroleum Group for the financial year ending 31 July 2007 will be as follows:

	2007
	RM'000
Revenue	887,685
Profit before taxation	59,079
Tax expense	(13,841)
Profit after taxation	45,238
Enlarged issued and paid up number of shares of RM0.10 each in issue ('000)	880,000
Based on the enlarged number of shares in issue - Basic net earnings per share (sen)	5.14

Note:
Kencana Petroleum obtained control over the financial and operating policies of Kencana HL Group and Kencana Bestwide Group on 20 September 2006, in accordance with the Sales of Share Agreements and Supplementary Agreements between the parties. The forecast above takes into account the forecast results of the Kencana Petroleum Group from 20 September 2006 to 31 July 2007.

In accordance with the accounting policy adopted by Kencana Petroleum, consistent with the requirements of Financial Reporting Standard, FRS 3:Business Combination, the excess of the fair values of the net assets acquired over the consideration paid is recognised in the income statement as it arises.

The excess of the provisional fair values of the net assets acquired over the consideration paid of approximately RM50 million arising from the acquisition of Kencana HL Group and Kencana Bestwide Group has not been accounted for in the above forecast as the gain is deemed to be a non-recurring income.

The following transactions are expected to be completed in December 2006.

i) Public Issue

The Public Issue is offered at the IPO Price of RM0.41 per Issue Share, payable in full upon application, and will be allocated in the following manner:

- 44,000,000 Issue Shares, representing 5.00% of the enlarged issued and paid up share capital of Kencana Petroleum, to be allocated via ballot, will be made available for application by Malaysian citizens, companies, co-operatives, societies and institutions whereby 30% will be set aside for Bumiputera investors;

- 141,000,000 Issue Shares, representing approximately 16% of the enlarged issued and paid-up share capital of Kencana Petroleum, by way of private placement to selected investors; and

- 15,000,000 Issue Shares, representing approximately 2% of the enlarged issued and paid-up share capital of Kencana Petroleum, will be made for application by eligible directors and employees, and persons who have contributed to the success of the Kencana Petroleum Group.

ii) Listing and quotation on the Main Board of Bursa Securities

Listing of and quotation for the entire issued and paid-up share capital of Kencana Petroleum comprising 880,000,000 ordinary shares of RM0.10 each on the Main Board of Bursa Malaysia Securities Berhad.

KPMG Stamped For Identification Purposes Only KUALA LUMPUR

APPENDIX 2

KENCANA PETROLEUM BERHAD ("Kencana Petroleum") AND ITS SUBSIDIARIES ("Kencana Petroleum Group")

CONSOLIDATED PROFIT FORECAST FOR THE YEAR ENDING 31 JULY 2007

The principal bases and assumptions upon which the consolidated profit forecast has been made are as follows:

General assumptions

1. There will be no significant changes in the current principal activities, composition and structure of Kencana Petroleum Group other than as planned.

2. There will be no significant changes in the prevailing economic and political conditions that will adversely affect the activities and performance of Kencana Petroleum Group.

3. There will be no material changes to present legislation or Government regulations, rates and bases of taxes and duties affecting Kencana Petroleum Group's activities.

4. There will be no adverse developments in political, economic, government control and regulatory framework in overseas markets where Kencana Petroleum Group operates in, which will affect the operations of Kencana Petroleum Group.

5. There will be no significant changes in the prevailing inflation and exchange rates of foreign currencies. The Kencana Petroleum Group will mitigate any foreign exchange risk with hedge instruments.

6. There will be no industrial disputes or any other abnormal factors or changes that will significantly affect Kencana Petroleum Group's operations at their forecast levels or disrupt their planned operations.

7. There will be no significant changes in the existing senior management and existing accounting, management and operational policies which will adversely affect Kencana Petroleum Group.

8. The capital expenditure program will be implemented and incurred on schedule and there will be no material acquisitions or disposals of property, plant and equipment other than those planned.

9. There will be no material contingent liabilities and litigations which are likely to give rise to any proceedings which might materially affect Kencana Petroleum Group's assets, financial position and operations and the profit forecast.

10. There will be no major incidence of bad and doubtful debts.

Revenue assumptions

1. There will be no adverse variations to the contract sums of all existing contracts.

2. All existing projects secured and currently undertaken by Kencana Petroleum Group will commence and be completed in accordance with the scheduled timelines.

3. The Group's yard capacity will be able to cater for the expected increase in contracts secured and to be secured from customers. There will be no new expansion plans other than as planned.

Costs assumptions

1. The Group will not be liable for liquidated ascertained damages and material defect liability claims.

2. There will be no significant changes in the prevailing cost of raw materials, labour and overheads which will adversely affect the profitability of Kencana Petroleum Group.

Financing assumption

1. Existing financing facilities will remain available to Kencana Petroleum Group and interest rates will not change significantly from those presently prevailing. In addition, Kencana Petroleum Group will be able to obtain financing facilities at the forecast interest rates.

9.9 DIRECTORS' COMMENTS ON THE CONSOLIDATED PROFIT FORECAST

The Board of Directors of Kencana Petroleum Group has reviewed and analysed the bases and assumptions used in arriving at the consolidated profit forecast of Kencana Petroleum Group for the financial year ending 31 July 2007 and is of the opinion that the consolidated profit forecast are fair and reasonable in light of the future plans, strategies and prospects of Kencana Petroleum Group and its associated companies as set out in Section 4.8 of this Prospectus, the outlook of the fabricated metal structure industry within the oil and gas sector as set out in Section 4.5.6 of this Prospectus and after taking into consideration the forecast gearing levels, liquidity and also working capital requirements of Kencana Petroleum Group as set out in Section 9.5 herein.

For the financial year ending 31 July 2007, Kencana Petroleum Group's revenue is expected to increase by approximately 103.0% from RM437.3 million to RM887.7 million mainly attributable to the increase in revenue from fabrication activities, which is driven by level of activities in the oil and gas industry and existing projects in hand. The entire revenue forecast of RM887.7 million is based on secured contracts.

Kencana Petroleum Group's profit after taxation for the financial year ending 31 July 2007 is forecasted to increase by 69.3% from RM26.7 million to RM45.2 million primarily as a result of higher revenue as well as interest savings due to repayment of bank borrowings from the IPO proceeds.

Nevertheless, these bases and assumptions cover future periods for which there are inherent risks, and therefore, should be treated with caution. These bases and assumptions are subject to significant uncertainties and contingencies, which are often outside the control of Kencana Petroleum Group. Therefore, certain assumptions used in the preparations of the consolidated profit forecast may differ significantly from the actual situation.

9.10 DIVIDEND FORECAST

The declaration of interim dividends and the recommendation of final dividend are subject to the discretion of the Board of Directors and any final dividend for the year is subject to shareholders' approval. It is the Company's intention to pay dividends to shareholders in the future; however, such payments will depend upon a number of factors, including the Group's financial performance, capital expenditure requirements, availability of tax credits, general financial condition and any other factors considered relevant by the Board of Directors.

The Board of Kencana Petroleum has not forecast any dividends to be declared for the financial year ending 31 July 2007.

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9.11 SENSITIVITY ANALYSIS

The following sensitivity analysis is prepared by the management of the Group and has not been independently verified by the Reporting Accountants. It is based on the forecast assumptions set out in Section 9.8 herein and assuming all factors remaining unchanged except for the 5% and 10% upward or downward variations in the revenue and the contract cost. Notwithstanding the impacts of the variations in the revenue and contract cost as outlined here, there may exists other factors which have not been taken into account, while variations may have a significant effect, either positively or negatively, on the financials of the Group. The sensitivity analysis is as follows:

9.11.1 Variations in Revenue

Forecast for the financial year ending 31 July 2007

	Revenue (RM'000)	Cost of Sales (RM'000)	Gross Profit (RM'000)	Profit Before Taxation (RM'000)	Profit After Taxation & After Minority Interest (RM'000)	Gross Profit Margin %
Base case	887,685	(799,105)	88,580	59,079	45,238	10.0
Up to 10%	976,454	(879,016)	97,438	67,937	52,021	10.0
Up to 5%	932,069	(839,060)	93,009	63,508	48,629	10.0
Down 5%	843,301	(759,150)	84,151	54,650	41,847	10.0
Down 10%	798,917	(719,195)	79,722	50,221	38,455	10.0

Assumptions:

1. *Gross profit margin will be maintained at the same percentage as in the base case.*
2. *Other income, overhead, operating expenses, finance costs and share of results of associated companies and jointly controlled entity remain constant.*
3. *Effective tax rate as per base case apply except for loss instances where no tax is assumed payable.*
4. *Consolidation of the financial results is from the date Kencana Petroleum obtained control over the financial and operating policies of Kencana HL and Kencana Bestwide on 20 September 2006.*

9.11.2 Variations in Contract Cost

Forecast for the financial year ending 31 July 2007

	Revenue (RM'000)	Cost of Sales (RM'000)	Gross Profit (RM'000)	Profit Before Taxation (RM'000)	Profit After Taxation & After Minority Interest (RM'000)	Gross Profit Margin %
Base case	887,685	(799,105)	88,580	59,079	45,238	10.0
Up to 10%	887,685	(879,016)	8,669	(20,832)	(20,832)	1.0
Up to 5%	887,685	(839,060)	48,625	19,124	14,643	5.5
Down 5%	887,685	(759,150)	128,535	99,034	75,832	14.5
Down 10%	887,685	(719,195)	168,490	138,989	106,427	19.0

Assumptions:

1. *Other income, overhead, operating expenses, finance costs and share of results of associated companies and jointly controlled entities remain constant.*
2. *Effective tax rate as per base case apply except for loss instances where no tax is assumed payable.*
3. *Consolidation of the financial results is from the date Kencana Petroleum obtained control over the financial and operating policies of Kencana HL and Kencana Bestwide on 20 September 2006.*

Based on the above assumptions, the sensitivity analysis shows that the Group will continue to remain profitable for the forecast year even if the revenue is varied downward by 10%.

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