
4. INFORMATION ON THE GROUP (Cont'd)

4.5 INDUSTRY OVERVIEW**4.5.1 Overview and Outlook of the Global Economy**

The global economy continues to grow despite high crude oil prices and monetary policy tightening in major economies. Economic activities in developed countries continue to expand, with the Euro area improving on the back of positive consumer and business sentiments, while in Japan, growth continues to firm up with further strengthening in business and consumer confidence. The US economy is showing signs of moderation. Among developing economies, growth continues to be strong in China, India and other nations in Asia, supported by rising exports, investment and consumption.

For the year, world gross domestic product ("GDP") is projected to expand further to 4.9% (2005: 4.8%). The strong growth forecast could be impeded by several downside risks, notably, a further increase in crude oil prices and global interest rates, disorderly adjustments of the global imbalances – the diverging current account positions of the world's main economic regions – as well as heightened geopolitical uncertainties in the Middle East.

Developing economies of Asia, with GDP growth averaging 8.5% have outpaced other regions for the past three (3) years. Leading economics are China and India with growth forecast at 10.4% (2005: 9.9%) and 7.3% (2005: 8.4%) respectively for 2006. The Association of Southeast Asian Nations (ASEAN) member countries are also expected to register strong growth ranging from 4.5% (Thailand) to 8% (Vietnam). Other Asian economies anticipated to show strong performance include Bhutan (13.2%), Afghanistan (11.7%) and Maldives (8%).

In an environment of high crude oil prices, tightening monetary conditions and deepening global imbalances, growth in the US is forecast to register 3% to 3.25% in 2007 (2006: 3.25%-3.5%), Euro area 1.9% (2006: 2.1%) and Japan 2.1% (2006: 2.8%), with inflation in advanced economies forecasted to remain subdued at 2.1% (2006: 2.3%). Growth in the East Asian region, in particular China, will nevertheless continue to be robust supported by domestic demand and export growth. With growth in major economies generally on a moderating trend, global output in 2007 is projected to be lower at 4.7% (2006: 4.9%).

(Source: Malaysia's Economic Report 2006/2007)

4.5.2 Overview and Outlook of the Malaysian Economy

Malaysia has achieved significant progress in developing the economy and improving the quality of life of its people, despite the difficult and volatile external environment in recent years. Economic management in 2006 remains challenging amidst an environment of persistently high crude oil prices, rising global interest rates and increasing competition from China, India and other emerging regional economies. With pragmatic macroeconomic policies coupled with strong economic fundamentals, including robust private investment, low unemployment as well as steady consumer spending, real GDP is projected to grow at 5.8% in 2006 (2005: 5.2%).

4. INFORMATION ON THE GROUP (Cont'd)

Growth in value added of the mining sector is envisaged to accelerate by 2.4% in 2006 (2005: 0.8%), mainly on account of the anticipated higher production of crude oil and natural gas in the second half of the year.

The growth of the mining sector is expected to increase strongly by 4.5% in 2007 (2006:2.4%), due to higher production of crude oil and gas, following capacity expansion in upstream activities. Output of crude oil is projected to be higher by 5.5% (2006: 3%), on account of the expected increase from new oil fields coming on stream in 2007. Production of natural gas is anticipated to grow by 3.3% (2006: 3.5%), supported by higher capacity utilisation of the MLNG2 and MLNG3 plants in Sarawak.

As for the external front, developments remain positive with Malaysia continuing to record a large current account surplus for the ninth consecutive year, underpinned by continued expansion in manufactured and commodity exports. In 2006 the overall balance of payments is expected to remain strong, backed by continued inflows of foreign capital. This in turn is anticipated to strengthen economic fundamentals and boost business confidence. Consistent with the expansion in economic activities, nominal Gross National Products (GNP) is estimated to increase by 11.6% to RM525,853 million, with per capita income rising by 9.4% to reach RM19,739 (2005: 10.7%; RM471,331 million; 8.4%; RM18,039). Taking into consideration the movement in foreign exchange and inflation, per capita income in terms of purchasing power parity (PPP) is expected to increase by 11.8%, to reach USD11,871 in 2006 (2005: 9.2%; USD 10,614).

The economic growth momentum in 2006 is expected to continue into 2007 at a stronger pace of 6%, supported by sound domestic economic fundamentals and a conducive business environment. However, several downside risks remain. High crude oil prices, further hike in international interest rates, global economic imbalances and geopolitical tensions are likely to dampen world growth and trade.

Despite these challenges, bolstered by a much improved oil-related revenue, the Government remains in a positive to pursue a budgetary stance that support further expansion in domestic economic activities.

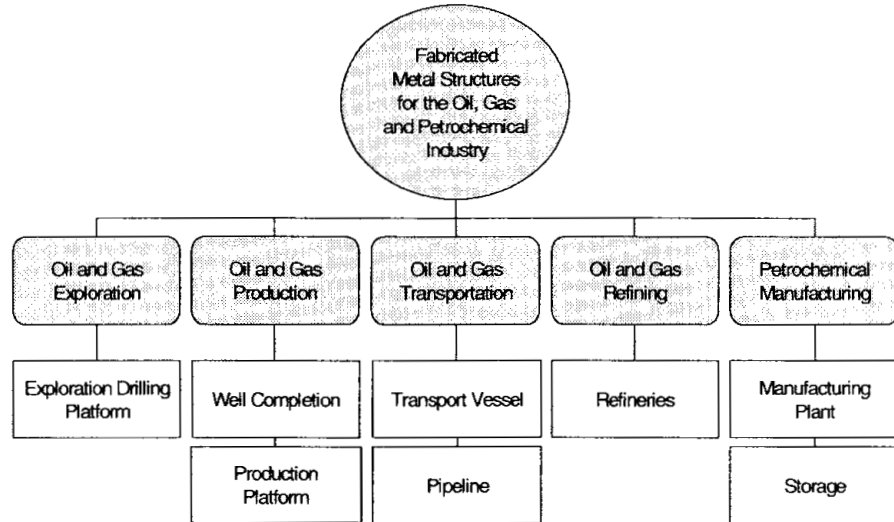
(Source: Malaysia's Economic Report 2006/2007)

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4. INFORMATION ON THE GROUP (Cont'd)

4.5.3 Oil, Gas and Petrochemical Industry

The fabrication of metal structures for the oil, gas and petrochemical industry can be segmented into the following:



The offshore fabrication activities for the oil, gas and petrochemical industry covers fabrication works for offshore oil and gas exploration drilling and production platform requirements such as jackets, platform decks, production modules and accommodation modules.

Other fabrication activities within the oil and gas transportation sector include transport vessels and pipeline.

Other related onshore fabrication activities include oil and gas refinery and downstream petrochemical manufacturing plants and storage facilities.

There are fewer than twenty (20) fabricators of metal structures for the oil and gas industry in Malaysia in 2005.

Of these, there are seven (7) operators that are licensed by Petronas to undertake major fabrication work for the oil and gas industry. Kencana Petroleum Group is one (1) of the seven (7) licensees.

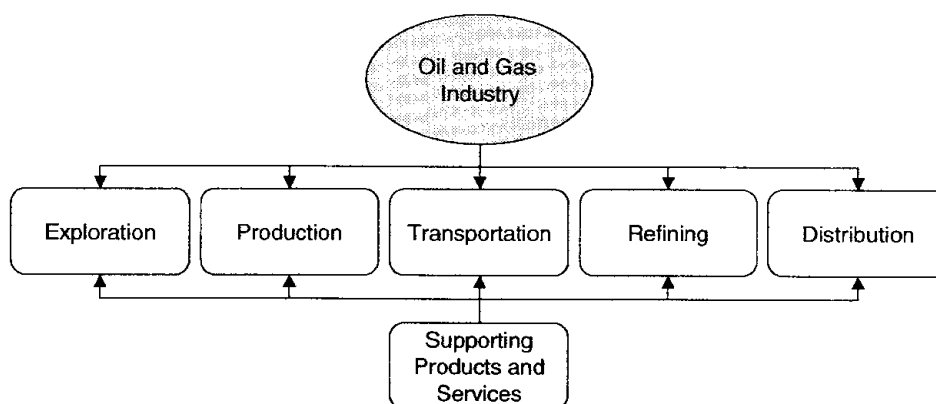
(Source: Assessment of the Fabricated Metal Structure Industry for the Oil and Gas Sector prepared by Vital Factor Consulting Sdn Bhd)

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4. INFORMATION ON THE GROUP (Cont'd)

4.5.4 The Segments of the Oil and Gas Industry

The structure of the oil and gas industry may be depicted as follows:



The oil and gas industry is segmented into the following:

(i) Exploration

Exploration comprises activities that are related to the prospecting of undiscovered hydrocarbons. Hydrocarbon is a generic term for organic compounds containing only carbon and hydrogen. Petroleum consists primarily of hydrocarbons. Exploration activities include the collection and interpretation of seismic survey data, and exploratory drilling and core analysis.

(ii) Production

Production comprises activities that are related to the extraction of hydrocarbons from identified hydrocarbon reserves. Production activities directly related to the extraction of hydrocarbons include drilling for hydrocarbons, completion, and production platform engineering and construction.

(iii) Transportation

Transportation comprises of the activities related to the transportation of extracted hydrocarbons from production fields to storage facilities and refineries. Transportation includes the construction and operation of onshore and offshore hydrocarbon pipelines, compression/pumping stations and the fabrication and operation of hydrocarbon transport vessels.

(iv) Refining

Refining comprises activities that are related to the processing of extracted hydrocarbons into a form that may be utilised by intermediate and final users. Petroleum refining primarily involves fractional distillation to separate the different petroleum fractions from crude petroleum, while natural gas refining primarily involves the purification and liquefaction of natural gas to facilitate transport and usage.

4. INFORMATION ON THE GROUP (Cont'd)

(v) Distribution

Distribution comprises activities that are related to the transportation and distribution of refined hydrocarbons to end-users. Distribution activities include the operation of storage facilities such as tank farms / depots and retail outlets such as petrol stations.

(vi) Supporting Products and Services

Supporting products and services comprised a diverse range of products and services that are used to facilitate the exploration, production through to the distribution of oil and gas. Some examples of supporting products and services include, among many others, the engineering and fabrication of production facility including modules and process skid systems.

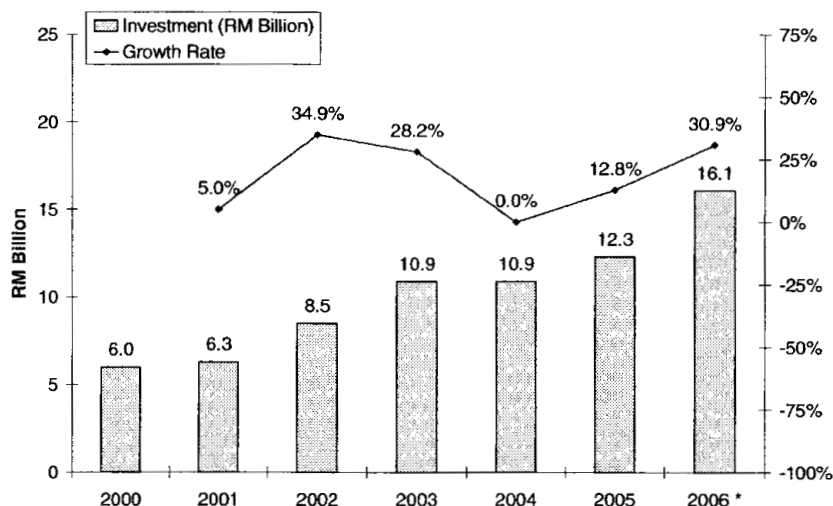
Kencana Petroleum Group is primarily involved in the engineering and fabrication of production facilities, which is a subset of the fabricated metal structures industry.

(Source: Assessment of the Fabricated Metal Structure Industry for the Oil and Gas Sector prepared by Vital Factor Consulting Sdn Bhd)

4.5.5 Performance of the Oil and Gas Industry

The following is the performance of the oil and gas industry in Malaysia, including the level of investment in upstream exploration and production, and downstream activities such as petroleum and petrochemical products, which may have impact on the demand on the fabricated metal structure industry.

(i) Investment in Exploration and Production



Notes: Investment for the financial years ended 31 March 2000 to 2006

* Figure for 2006 is an approximation.

Investment in Exploration and Production of Oil and Gas in Malaysia

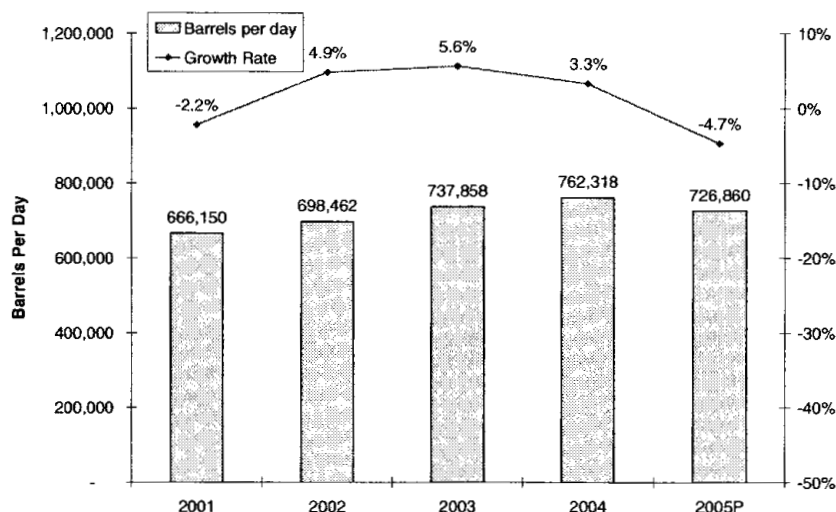
4. INFORMATION ON THE GROUP (Cont'd)

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 17.9% between the financial years ended 31 March 2000 and 31 March 2006.

During the financial year ended 31 March 2006, investment increased by approximately 30.9%, with the level of investment reaching approximately RM16.1 billion.

(ii) Production of Crude Oil and Condensates

Between 2001 and 2005, production of crude oil and condensates grew at an average annual rate of 2.2%. In 2005, production of crude oil and condensates decreased by 4.7% to reach approximately 727,000 barrels per day.



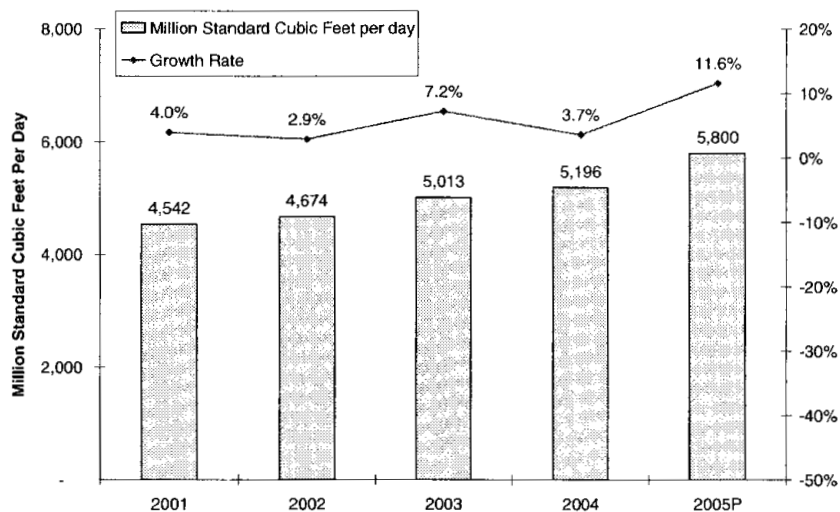
Production of Crude Oil and Condensates

During the first six months of 2006, production of crude oil and condensates averaged 690,610 barrels per day, representing an increase of 1.1% compared to the corresponding period in 2005. Production of crude oil and condensates for 2006 as a whole is expected to average 724,500 barrels per day in anticipation of higher production capacity and demand.

On 1 January 2006, reserves of crude oil and condensates stood at 5,250 million barrels, with a lifespan of 20 years.

4. INFORMATION ON THE GROUP (Cont'd)

(a) Production of Natural Gas



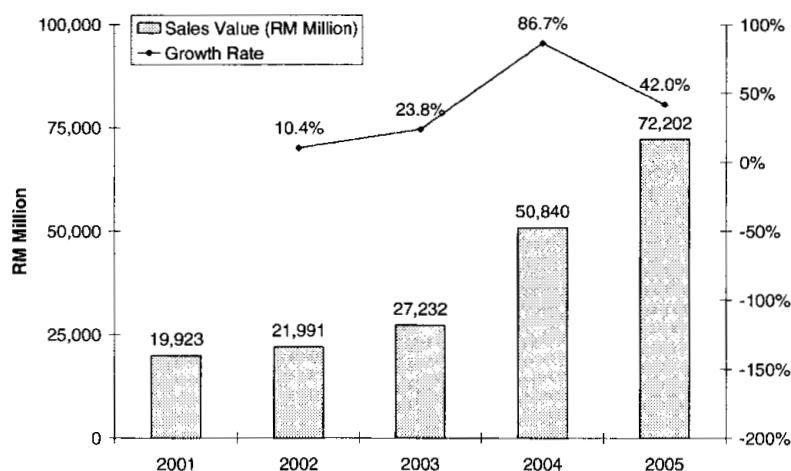
Production of Natural Gas

Between 2001 and 2005, production of natural gas grew at an average annual rate of 6.3%. In 2005, production of natural gas increased by 11.6% to reach 5,800 million standard cubic feet per day (mmscfd).

During the first six months of 2006, production of natural gas was 5,781 mmscfd, representing a decline of 3.7% compared to the corresponding period in 2005. Production of natural gas for 2006 as a whole is projected to average 6,000 mmscfd on expectation of higher production in the second half of the year.

On 1 January 2006, reserves of natural gas stood at 87.9 trillion cubic feet, with a lifespan of 34 years.

(b) Manufacture of Refined Petroleum Products



Refined Petroleum Products

4. INFORMATION ON THE GROUP (Cont'd)

Between 2001 and 2005, sales value of the manufacture of petroleum products grew at an average annual rate of 38.0%. In 2005, sales value of the manufacture of refined petroleum products increased by 42.0% to reach RM72.2 billion.

(Source: Assessment of the Fabricated Metal Structure Industry for the Oil and Gas Sector prepared by Vital Factor Consulting Sdn Bhd)

4.5.6 Outlook of the Fabricated Metal Structure Industry within the Oil and Gas Sector

The outlook for the fabricated metal structure industry is influenced by the outlook of certain other industries, including the oil and gas industry, and the construction industry.

Sectors of the fabricated metal structure industry that are dependent on the oil and gas industry include those that are involved in the fabrication of offshore and on-shore facilities, and other metal structures.

The outlook of the fabricated metal structure industry within the oil and gas sector in Malaysia is **favourable**. This is substantiated by the following:

- While the development potential for Malaysian shallow water fields may be limited, there is substantial deepwater development (generally sea depth of over 200 meters) potential as PSC rights have yet to be awarded for many of these areas. Awarding PSC to open up these deepwater areas for exploration, development and production should drive demand for the fabrication of new offshore platforms, especially those that are able to operate in deepwater;
- In particular, the discovery of new reserves should sustain and may increase demand for fabricated metal structures, particularly offshore platforms;
- Technological developments such as the development of subsea production systems, FPSO vessels, directional and multilateral drilling, and improved seismic survey technology has lowered the cost of producing hydrocarbons from some reserves. Combined with the current high price of hydrocarbons, production from some previously marginal reserves may now be economical. Bringing these marginal fields into production should drive demand for, among others, the fabrication of new offshore platforms;
- 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; and
- Sustained high price for hydrocarbons is likely to sustain hydrocarbon exploration, development and production activity. In particular, discovery of new reserves may lead to demand for new offshore production platforms to undertake exploratory drilling, well development, and petroleum and natural gas production.

(Source: Assessment of the Fabricated Metal Structure Industry for the Oil and Gas Sector prepared by Vital Factor Consulting Sdn Bhd)

4. INFORMATION ON THE GROUP (Cont'd)

4.5.7 Players and Competition

Generally the fabricated metal structure industry operates under **normal** competitive conditions.

However, there are some conditions as follows:

- Only operators that are licensed or registered by Petronas are allowed to bid directly for work provided by Petronas and PSC operators in the oil and gas industry.
- Operators who wish to carry out construction work in Malaysia are required to register with the CIDB under the Construction Industry Development Board Act 1994.
- All builders, contractors and sub-contractors (including operators carrying out civil engineering, mechanical and electrical works) who wish to tender for Government projects must also register with PKK of the Ministry of Entrepreneur Development.
- All operators who wish to obtain contracts from the Government or to bid directly for work provided by Petronas and PSC operators in the oil and gas industry are required to register as contractors with the MOF.
- As with most free enterprise environments, once all the licensing and registration requirements are complied, competition is based on a number of factors, including:
 - Technical compliance to customers' specifications and requirements;
 - Cost competitiveness;
 - Quality of products and services;
 - Prompt delivery/completion; and
 - Fabrication/Manufacturing capabilities and capacity.

There are fewer than 20 fabricators of metal structures for the oil and gas industry in Malaysia in 2005. Of these, there are seven operators that are licensed by Petronas to undertake major fabrication work for the oil and gas industry.

(Source: Assessment of the Fabricated Metal Structure Industry for the Oil and Gas Sector prepared by Vital Factor Consulting Sdn Bhd)

4.5.8 Laws and Regulations

All rights related to the exploration and extraction of petroleum in Malaysia is vested in Petronas under the Petroleum Development Act 1974. Petronas was also granted control on downstream activities and developments relating to petroleum and its products under the Petroleum Development Act 1974. All operators wishing to participate in the oil and gas industry are required to obtain the necessary licenses, or to successfully register with Petronas, before they are allowed to participate in these activities. Operators who wish to obtain contracts from the Government are required to register as contractors with the MOF.

4. INFORMATION ON THE GROUP (Cont'd)

Operators who wish to carry out construction work in Malaysia are required to register with the CIDB under the Construction Industry Development Board Act 1994. According to the Industrial Coordination Act, 1975 which mandates all companies carrying out manufacturing activities with shareholders' funds of RM2.5 million or above, or engaging 75 or more full-time employees to attain a manufacturing licence.

Petronas Licenses and Registration

Applicants are required to specify the scope of work for which the license or registration is being applied for, based on a set of Standardised Work and Equipment Categories ("SWEC"). An individual license or registration must be obtained for each SWEC.

SWEC classification is divided into 3 categories. The example below illustrates the categorisation system:

Code	Description	Category
SM1	Maintenance Services	Primary Category
SM1 – 02	Electrical Maintenance	Secondary Category
SM1 – 02.	Industrial Facilities/Equipment	Tertiary Category

Companies that have obtained a license for a SWEC are allowed to participate in the upstream sector, downstream sector, and maritime sector of the oil and gas industry.

In contrast to a licence, companies that are registered in a SWEC are allowed to only participate in the downstream sector and maritime sector of the oil and gas industry. Registered companies are not allowed to participate in the upstream sector. Licenses and registration are generally effective for a period of one (1) or two (2) years, after which they may be renewed.

(Source: Assessment of Fabricated Metal Structure Industry for the Oil and Gas Sector prepared by Vital Factor Consulting Sdn Bhd)

4.5.9 Demand and Supply Conditions

End-User Segmentation Demand

Demand for Kencana Petroleum Group's products and services may come from all segments of the oil and gas industry as follows:

- (i) Offshore and onshore production facilities used in the exploration and production segments;
- (ii) Modules and process skid systems;
- (iii) Oil and gas pipelines in the transportation segment;
- (iv) Hydrocarbon refining and gas processing plants in the refining segment;
- (v) Tank Farms/Depots and metering skids in the distribution segment; and
- (vi) EPCC services for a wide range of applications in the oil, gas and petrochemical industry.

Demand for Kencana Petroleum Group's products and services may come from wide range of applications in the construction industry where there is a need to fabricate metal structures (for example steel superstructures and infrastructures).

4. INFORMATION ON THE GROUP (Cont'd)

Kencana Petroleum Group supplies a wide range of products and services to customers engaged in the oil and gas industry and construction industry, and as such serves a wide range of its customer's needs. This diversity in terms of products and services provided provides Kencana Petroleum Group with the following key business advantages:

- (i) large potential customer base in terms of products and services supplied, to provide opportunities business growth;
- (ii) business risk diversification from over dependency on the demand of any single product or service; and
- (iii) ability to provide products and services across a large part of the oil and gas production cycle, including the exploration, development, production, post-production, transportation (pipelines), refining, and distribution stages. This helps mitigate against cyclicity in terms of hydrocarbon development.

Supply Production

(i) Manufacture of Structural Metal Products

In 2005, sales value of the manufacture of structural metal products increased by 15.3% to reach RM835.3 million.

(ii) Production Index of Fabrication of Metal Products

Between 2001 and 2005, production index of fabrication of metal products grew at an average annual rate of 6.6%. In 2005, production index of fabrication of metal products declined by 7.5% to reach 258.7 points.

(iii) Import of Floating or Submerged Drilling or Production Platforms

Between 2001 and 2005, the import value of floating or submersible drilling or production platforms increased at an average annual rate of 43.6%

In 2005, the import value of floating or submersible drilling or production platforms increased by 24.3% to reach RM857.2 million.

Supply Dependencies – Raw Material

The major raw materials required for the fabrication of metal structures include iron and steel, and other metal materials.

According to Malaysian Industrial Development Authority, there were more than 367 establishments for producing iron and steel products operating in 2005. Among others, these include the following:

- (i) primary steel products such as direct reduced iron (DRI), hot bridgetted iron (HBI), billets;
- (ii) rolling or finished products such as bars, wire rods, sections, hot-rolled plates and sheets and cold-rolled coils;
- (iii) secondary long products such as wire and wire products; and
- (iv) secondary flat products such as pipes and pipe fitting, tinplate and others.

4. INFORMATION ON THE GROUP (Cont'd)

In addition, Malaysia also imports iron and steel from overseas countries. In 2005, imports of iron and steel amounted to RM16.1 billion.

The following section is an assessment of the local production and imports of raw materials used in the fabrication of metal structures.

(i) Primary Iron and Steel Industries

Between 2001 and 2005, sales value of primary iron and steel industries grew at an average annual rate of 32.6%. In 2005, sales value of primary iron and steel industries increased by 40.2% to reach RM13.2 billion.

(ii) Manufacture of Steel Bars and Rods

Between 2001 and 2005, sales value of manufacture of steel bars and rods (round, flat, deformed, angle and others) grew at an average annual rate of 12.5%. In 2005, sales value of manufacture of steel bars and rods (round, flat, deformed, angle and others) decreased by 2.6% to reach RM4.4 billion.

In 2005, production quantity of steel bars and rods (round, flat, deformed, angle and others) decreased by 11.1% to reach 2.6 million tonnes. However, between 2001 and 2005, production quantity of steel bars and rods (round, flat, deformed, angle and others) declined at an average annual rate of 0.7%.

(iii) Imports of Iron and Steel

Between 2001 and 2005, import value of iron and steel billets grew at an average annual rate of 18.5%. In 2005, import value of iron and steel billets increased by 17.8% to reach RM16.1 billion.

Between 2001 and 2005, import value of iron and steel bars, rods, angles and shapes and sections (including sheet piling) grew at an average annual rate of 19.1%. In 2005, import value of steel bars, rods, angles and shapes and sections (including sheet piling) increased by 8.6% to reach RM1.8 billion.

(Source: Assessment of Fabricated Metal Structure Industry for the Oil and Gas Sector prepared by Vital Factor Consulting Sdn Bhd)

4.5.10 Substitute Products/Services

The threat from substitutes faces by Kencana Petroleum is as follows:

(a) Other Offshore Platform Technology

Kencana Petroleum Group currently designs and fabricates offshore platforms with steel topside and steel jackets. PSC operators may choose to utilise other types of offshore platforms.

In addition, a subsea production system coupled with Floating Production Storage and Offloading ("FPSO") or Floating Storage and Offloading ("FSO") vessels may also be used.

4. INFORMATION ON THE GROUP (Cont'd)

(b) The Use of Materials Other Than Ferrous Metals

The material that is currently most commonly used by Kencana Petroleum Group in fabricating large and complex structures is ferrous metal, primarily steel and stainless steel. Ferrous metal is also widely used in the fabrication of skidded systems and the construction of pipelines.

Alternative materials that can be used as a substitute for ferrous metal includes non-ferrous metals such as aluminium, titanium and metal alloys, concrete, plastic, ceramic and composite material.

(Source: Prospects and Future Plans of Kencana Petroleum Berhad prepared by Vital Factor Consulting Sdn Bhd.)

4.5.11 Reliance on and Vulnerability to Imports

Iron and steel products are a major raw material utilised by Kencana Petroleum Group in the fabrication of offshore production facilities, onshore production facilities, modules, process skid systems and other structures and equipment.

During the financial year ended 31 July 2006, purchases 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 these types of steel materials are easily available from overseas, any disruptions in supply are minimised. For situations where steel can be used, Malaysia's large output would easily satisfy Kencana Petroleum Group's requirements. According to management, Kencana Petroleum Group has not experienced any shortages in the supply of this raw materials.

(Source: Prospects and Future Plans of Kencana Petroleum Berhad prepared by Vital Factor Consulting Sdn Bhd.)

4.6 MAJOR CUSTOMERS

The major customers which individually contributed 10% or more of the Group's revenue for the last three (3) audited financial statements for the financial years ended 31 July 2004 to 2006 based on proforma income statements are as follows:

Name of Customer	Financial Year Ended 31 July		
	2004	2005	2006
	% of Total Revenue		
White Nile (5B) Petroleum Operating Company Ltd	-	21.2	43.4
Petronas Carigali Sdn Bhd	11.6	18.8	4.3
Nam Fatt Construction Sdn Bhd	41.1	16.0	6.1
Global Process Systems Sdn Bhd	-	-	13.9
Total	52.7	56.0	67.7

4. INFORMATION ON THE GROUP (Cont'd)

For financial year ended 31 July 2004

For the financial year ended 31 July 2004, the top twenty (20) customers of Kencana Petroleum Group represented approximately 92.4% of the Group's proforma revenue, amounting to approximately RM166.8 million. The remaining 7.6% of the revenue was generated from thirteen (13) other customers.

Nam Fatt Construction Sdn Bhd was the Group's largest customer, contributing revenue of approximately RM74.2 million, accounting for approximately 41.1% of Kencana Petroleum Group's total proforma revenue for the financial year ended 31 July 2004. Revenue from the second largest customer, Petronas Carigali Sdn Bhd generated revenue of approximately RM21.0 million, or approximately 11.6% of Kencana Petroleum Group's proforma revenue.

For financial year ended 31 July 2005

For the financial year ended 31 July 2005, the top twenty (20) customers of Kencana Petroleum Group represented approximately 98.0% of the Group's proforma revenue, amounting to approximately RM265.4 million. The remaining 2.0% of the revenue was generated from twelve (12) other customers.

White Nile (5B) Petroleum Operating Company Ltd was the Group's largest customer, contributing revenue of approximately RM57.5 million, accounting for approximately 21.2% of Kencana Petroleum Group's total proforma revenue for the financial year ended 31 July 2005. Revenue from the second largest customer, Petronas Carigali Sdn Bhd generated revenue of approximately RM51.0 million, or approximately 18.8% of Kencana Petroleum Group's proforma revenue. The third largest customer, Nam Fatt Construction Sdn Bhd generated revenue of approximately RM43.4 million, accounting for approximately 16.0% of Kencana Petroleum Group's proforma revenue. The top three (3) customers of Kencana Petroleum Group collectively accounted for approximately 56.0% of the total proforma revenue of Kencana Petroleum Group for the financial year ended 31 July 2005.

For financial year ended 31 July 2006

For the financial year ended 31 July 2006, the top twenty (20) customers of Kencana Petroleum Group represented approximately 97.1% of the Group's proforma revenue, amounting to approximately RM424.5 million. The remaining 2.9% of the revenue was generated from eighteen (18) other customers.

White Nile (5B) Petroleum Operating Company Ltd was the Group's largest customer, contributing revenue of approximately RM190.0 million, accounting for approximately 43.4% of Kencana Petroleum Group's total proforma revenue for the financial year ended 31 July 2006. Revenue from the second largest customer, Global Process Systems Sdn Bhd generated revenue of approximately RM60.6 million, or approximately 13.9% of Kencana Petroleum Group's proforma revenue.

Kencana Petroleum Group has a stable relationship with its customers. Approximately 50% of its top twenty (20) customers have dealt with the Group for more than three (3) years.

4. INFORMATION ON THE GROUP (Cont'd)

Kencana Petroleum Group's customers include major PSC operators in the Malaysian oil and gas industry as follows:

- Petronas Carigali Sdn Bhd
- Murphy Sarawak Oil Co. Ltd
- Sarawak Shell Berhad
- ExxonMobil Exploration and Production Malaysia Inc
- Talisman Malaysia Limited

Products and services provided by the Group to these oil and gas industry operators includes onshore and offshore production facilities, modules and process skid systems, as well as the provision of maintenance and engineering services. This is an endorsement of the Group's fabrication and engineering capabilities.

Please refer to Section 3(b) of this Prospectus for details of risk on dependency of customers.

(Source: Business Overview of Kencana Petroleum Berhad prepared by Vital Factor Consulting Sdn Bhd)

4.7 MAJOR SUPPLIER

The major supplier which has individually contributed to more than 10% of the Group's purchases for the last three (3) audited financial statements for the financial years ended 31 July 2004 to 2006 based on proforma income statements is as follows:

Name of Supplier	Financial Year Ended 31 July		
	2004	2005	2006
	% of Total Purchases		
Malaysian International Trading Corporation (Japan) Sdn Bhd	0.2	3.7	21.4
Total	0.2	3.7	21.4

For financial year ended 31 July 2004

The top 20 suppliers of Kencana Petroleum Group accounted for approximately 38.2% of its total proforma purchases for the financial year ended 31 July 2004.

The Group is not overly dependent on any single supplier. No single supplier accounted for more than 10% of the Group's proforma purchases. The three (3) largest suppliers collectively accounted for approximately 14.4% of the Group's proforma purchases.

For financial year ended 31 July 2005

The top 20 suppliers of Kencana Petroleum Group accounted for approximately 55.8% of its total proforma purchases for the financial year ended 31 July 2005.

4. INFORMATION ON THE GROUP (Cont'd)

The Group is not overly dependent on any single supplier. No single supplier accounted for more than 10% of the Group's proforma purchases. The three (3) largest suppliers collectively accounted for approximately 17.4% of the Group's proforma purchases.

For financial year ended 31 July 2006

The top 20 suppliers of Kencana Petroleum Group accounted for approximately 60.8% of its total proforma purchases for the financial year ended 31 July 2006.

The Group is not overly dependent on any single supplier. The three (3) largest suppliers collectively accounted for approximately 38.3% of the Group's proforma purchases. There was only one (1) supplier, which accounted for more than 10% of the Group's proforma purchases. Malaysian International Trading Corporation (Japan) Sdn Bhd was the Group's largest supplier, accounting for approximately RM82.3 million or approximately 21.4% of Kencana Petroleum Group's total proforma purchases for the financial year ended 31 July 2006.

Kencana Petroleum Group generally enjoys a stable relationship with its suppliers. This is reflected by the fact that approximately 55.0% of the top 20 suppliers have been dealing with the Group for more than three (3) years.

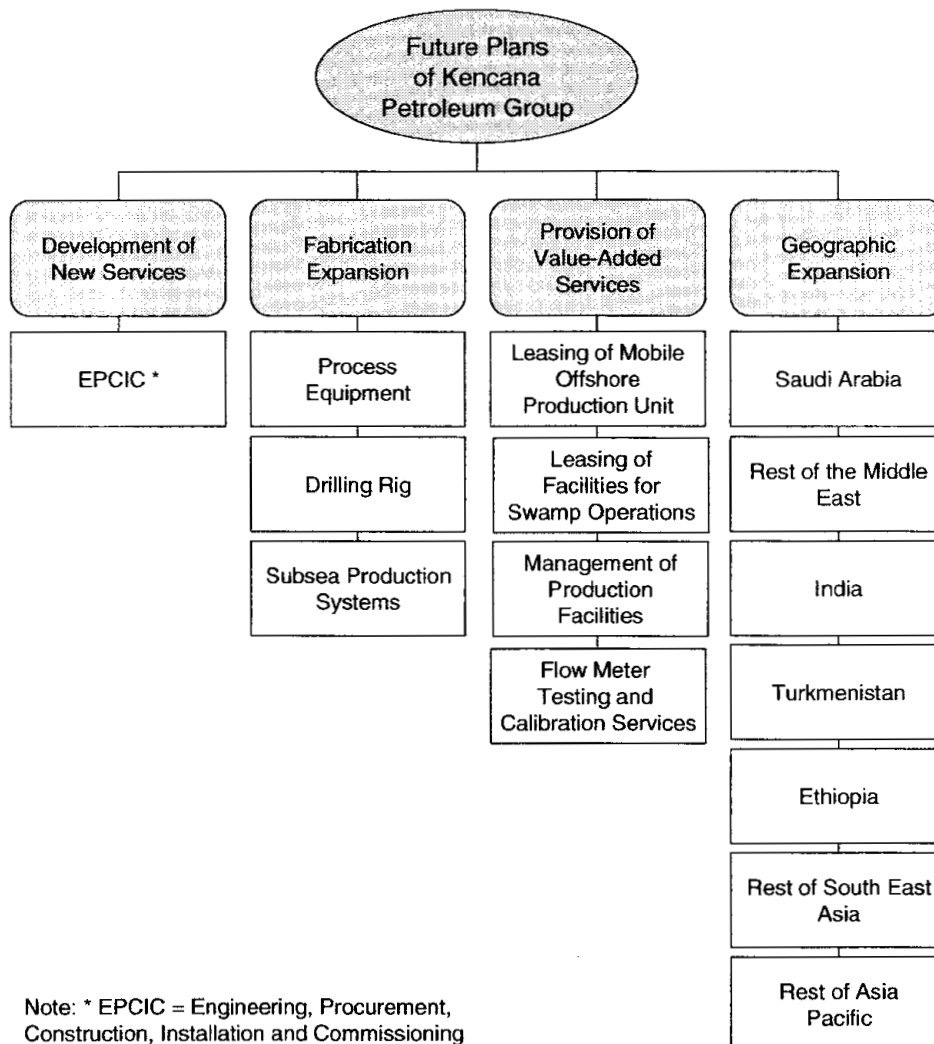
(Source: Business Overview of Kencana Petroleum Berhad prepared by Vital Factor Consulting Sdn Bhd)

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4. INFORMATION ON THE GROUP (Cont'd)

4.8 FUTURE PLANS, STRATEGIES AND PROSPECTS

The future plans of Kencana Petroleum Group are focused in four (4) main areas as depicted in the diagram below:



(a) Development of New Service Capability

Kencana Petroleum Group plans to expand the scope of its business capability to include the following service:

(i) EPCIC

Kencana Petroleum Group is currently engaged in the EPCIC of facilities for the oil and gas industry, including offshore and onshore facilities. The Group plans to expand the scope of its capabilities to include the EPCIC of offshore facilities for the oil and gas industry.

An EPCIC contract typically involves total responsibility, and covers the whole spectrum of offshore structure fabrication, including the installation of required structures and pipelines at site.

4. INFORMATION ON THE GROUP (Cont'd)

Offshore installation includes all of the activities required to install the structure in an offshore environment, including:

- Site survey and preparation;
- Marine operations, including provision of transport barges, lift barges, hook-up vessels, tugs, pipelay barges, and other operations;
- Provision of required diving and Remotely Operated Vehicle (ROV) operations;
- Installation, flooding, pigging, flushing, testing, logging and dewatering of intrafield pipelines;
- Pile installation, driving and instrumented pile driving monitoring; and
- Offshore installation works.

Kencana Petroleum Group secured its first EPCIC project in April 2006, and plans to further expand its EPCIC services.

(b) Development of New Fabrication Capability

Kencana Petroleum Group plans to expand its fabrication capabilities to incorporate the following new products and services:

(i) Fabrication of Specialised Equipment

Kencana Petroleum Group plans to expand its capability to design and fabricate specialised equipments for the oil and gas industry, such as equipments to handle corrosive and sour (i.e. containing high levels of impurities) crude oil and gas.

With the experience of fabricating pressure vessels and heat exchangers, and possessing in-house design and engineering expertise, the Group is well positioned to undertake the fabrication of specialised equipments.

The design, engineering and fabrication of specialised equipments are governed by local and international agencies such as the DOSH, the ASME and the American Petroleum Institute. Kencana HL is registered with DOSH as a fabricator of pressure vessels, in addition to being accredited and certified by ASME for the manufacture of pressure vessels and heat exchangers.

Kencana Petroleum Group completed its first specialised equipment fabrication, the carbon dioxide (CO₂) removal skid for Talisman Malaysia Limited (under licensed by UOP LLC) in 2005 and plans to undertake the fabrication of more specialised equipments in 2007.

(ii) Refurbishment of Offshore Drilling Rigs

Kencana Petroleum Group plans to utilise its expertise in designing and fabricating offshore production facilities to refurbish offshore drilling rigs.

4. INFORMATION ON THE GROUP (Cont'd)

In 2006, the Group was already involved in similar nature project, the refurbishment and conversion of an offshore drilling rig into a mobile offshore production unit for Petrofac (Malaysia PM-304) Limited for its Cendor Field, offshore Terengganu, Malaysia.

Offshore drilling rigs are designed to provide a platform from which drilling and/or completion can be undertaken in a marine environment. In exploratory drilling, core samples are obtained for further analysis. In well completion, drilling is carried out to establish a connection between the surfaces and a known hydrocarbon reserve. Hydrocarbons can then be extracted from the reserve.

Equipment and systems housed on an offshore drilling rig normally includes a drilling floor and derrick set; drilling mud and shaker system; pumping system; power generating equipment; cranes and anchor winches system; ancillary drilling equipment; and crew accommodations and support systems.

Offshore drilling rigs are movable structures. Once exploratory drilling is completed, or a well has been completed and the flow of hydrocarbons initiated, the offshore drilling rig is towed or sailed from the site. The types of offshore drilling rigs currently most commonly used in operation are jack-up rigs, semi-submersible rigs and drill-ships/barges. The Group possesses the necessary in-house design, engineering and fabrication capabilities to undertake refurbishment of offshore drilling rig. The Group plans to further undertake the refurbishment of offshore drilling rigs in 2007.

(iii) Subsea Production System Design and Fabrication

Subsea production systems are offshore oil and gas production systems where the production equipment is installed on the seabed.

Subsea production systems range in size and complexity from a single subsea tree system producing to a nearby surface platform, to multiple subsea tree systems dispersed over a large area producing through a subsea manifold and pipeline system to a distant production facility. All of the major components of a subsea production system are typically designed to operate continuously under harsh conditions for an extended period of time.

Kencana Petroleum Group plans to fabricate major component systems of subsea production systems, such as the subsea manifolds, deep-water pipeline end manifolds, umbilical distribution hubs, subsea distribution assemblies, the suction anchors for these systems, and the grillage and sea fastenings for these systems.

The Group initially intends to form strategic alliances with established designers and suppliers of subsea production systems in order to acquire the required expertise and experience.

The Group plans to commence fabrication of subsea production system by early 2007.

4. INFORMATION ON THE GROUP (Cont'd)

(c) Provision of Value-Added Services

The Group is also planning to expand its value-added services in the following areas:

(i) Leasing of Mobile Offshore Production Unit ("MOPU")

Kencana Petroleum Group plans to be involved in the long term lease of MOPU to oil and gas companies in Malaysia and overseas.

Kencana Petroleum Group has acquired the experience in the fabrication and conversion of an offshore drilling rig into the first MOPU in Malaysia for Petrofac (Malaysia PM-304) Limited for its Cendor Field, offshore Terengganu, Malaysia. With that experience, the Group plans to embark on MOPU leasing which will enable the Group to participate in a business with a recurring revenue stream.

Kencana Petroleum Group plans to expand into MOPU leasing business by 2007.

(ii) Leasing of Facilities for Swamp Operations

Kencana Petroleum Group plans to provide leasing of facilities to support drilling operations in swamp environments. A number of oilfields have been discovered in swamp environments globally, including large oilfields in Sudan.

The Group secured the first contract for leasing of facilities with its consortium partners to support the drilling operations in swamp environment from White Nile (5B) Petroleum Operating Company Ltd in Sudan in 2006 for Block 5B exploration drilling campaign. Once the exploration drillings are completed, there will be a potential for the Group to expand its services for the development activities.

(iii) Management of Production Facilities

Kencana Petroleum Group plans to provide onshore and offshore production facilities management services to third-party oil companies and PSC operators in Malaysia.

Onshore and offshore production facility management encompasses a range of services, including:

- Supply of personnel to manage overall production operations;
- Supply of skilled and unskilled manpower to operate the production facilities; and
- Servicing and maintenance of production facility systems and equipment.

Manpower supplied by Kencana Petroleum Group may either be permanent Group employees, or third party contractors engaged by the Group.

4. INFORMATION ON THE GROUP (Cont'd)

Permanent Kencana Petroleum Group employees stationed at production facilities will normally be engaged in managing and supervising operations. Third party contractors are normally engaged to carry out skilled and unskilled drilling work, catering and related services, and occasional repair and maintenance services.

The provision of onshore and offshore production facility management services will provide the Group with a new recurring revenue stream for the business.

Kencana Petroleum Group plans to commence onshore and offshore production facility management by 2007.

(iv) Flow Meter Testing and Calibrating Services

Kencana Petroleum Group plans to offer flow meter testing and calibration services incorporating the following:

- Liquid flow meter testing and calibration;
- Gas flow meter testing and calibration; and
- Multiphase flow meter testing and calibration.

Kencana Petroleum Group plans to establish and operate a facility in Malaysia to test and calibrate liquid flow metering, gas flow metering, and multiphase flow metering equipment. The Group plans to construct a test loop facility.

Flow meter testing and calibration (including the testing of liquid flow, gas flow and multiphase flow meters) is currently carried out overseas, as there are no certified testing and calibrating facilities in Malaysia. Kencana Petroleum Group plans to undertake R&D to develop the technology necessary to conduct in-house flow meter testing.

Kencana Petroleum Group intends to develop the capability to undertake testing and calibration of the fluid meters utilising the following technologies:

Fluid Metering Technology	Gas Phase	Liquid Phase
Orifice plate	√	
Turbine meter	√	√
Ultrasonic flow meter	√	√
Coriolis meter		√

The Group plans to initially focus on developing capabilities to test and calibrate single phase, liquid flow meters and gas flow meters.

Together with suitable local partners such as SIRIM Berhad and local universities, the Group plans to undertake testing and calibration of liquid flow meters, gas flow meters, and multiphase flow meters.

4. INFORMATION ON THE GROUP (Cont'd)

To meet the current specifications of the oil and gas industry, Kencana Petroleum Group plans to develop the capability to provide flow meter calibration services that comply with the applicable sections of one or more of the following internationally recognised procedural and quality standards:

- American Petroleum Institute standards;
- International Standard Organisation (ISO);
- ASME standards; and
- United States National Institute of Standards & Technology (NIST) traceable.

The Group plans to commence on the R&D to develop fluid meter testing by 2007. Pending the successful development of the relevant technology and facilities, the Group plans to establish a liquid flow meter, gas flow meter, and multiphase flow meter testing facility in Malaysia by 2008.

(d) Geographic Expansion

In conjunction with Petronas operations overseas, Kencana Petroleum Group plans to expand the geographic scope of its business activities. The Group believes that future business expansions will see increasing demand coming from the overseas market.

The Group is currently completing its first major onshore project, the EPCC of the Central Processing Facility for White Nile (5B) Petroleum Operating Company Ltd in Sudan. The Group has also undertaken the fabrication of a wellhead platform and jacket for an Australian client, Roc Oil (WA) Pty Ltd in 2005.

Moving forward, the Group plans to establish its presence overseas in the following countries:

- Saudi Arabia by early 2007;
- India in 2007;
- Myanmar in 2007;
- Turkmenistan in 2007;
- Ethiopia in 2008;
- the rest of South East Asia in 2009; and
- the rest of Asia Pacific in 2009.

As part of Kencana Petroleum Group's intention to service customers in the Middle East and North Africa region, the Group plans to form a joint venture with a strong local partner in the Middle East.

The Group also plans to establish a fabrication yard with its partner in the Middle East by 2007 to cater for countries such as Saudi Arabia, Qatar, Oman and Abu Dhabi. Through the joint venture, the Group intends to engage in the EPCC and EPCIC of onshore and offshore oil and gas facilities and/or installations and pipeline, logistics, base and marine support services, provision of process, metering and other equipments, and other activities.

4. INFORMATION ON THE GROUP (Cont'd)

The Group plans to enter into joint venture arrangements or other forms of partnership with local operators that are able to provide local knowledge and/or expertise to the Group.

(Source: Prospects and Future Plans of Kencana Petroleum Berhad prepared by Vital Factor Consulting Sdn Bhd.)

Given the favourable outlook of the fabricated metal structure industry within the oil and gas sector set out in Section 4.5.6 herein, Kencana Petroleum Group's competitive strengths set out in Section 4.2.2 herein with the Group's dedication to implement the future plans and strategies set out herein, the Directors of Kencana Petroleum believes that the prospects of Kencana Petroleum Group is favourable.

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