

## 1. SUMMARY INFORMATION

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**THE SUMMARY INFORMATION IS ONLY A SUMMARY OF THE SALIENT INFORMATION ABOUT THE GROUP AND INVESTORS SHOULD READ AND UNDERSTAND THE WHOLE PROSPECTUS PRIOR TO DECIDING WHETHER OR NOT TO INVEST IN THE SHARES OF THE COMPANY. THE SUMMARY INFORMATION SET OUT BELOW IS DERIVED FROM THIS PROSPECTUS AND SHOULD BE READ IN CONJUNCTION WITH THE FULL TEXT OF THIS PROSPECTUS.**

### 1.1 HISTORY AND BUSINESS

Kencana Petroleum was incorporated in Malaysia under the Act on 28 September 2004 as a private company limited by shares under the name of Radiant Horizon Sdn Bhd. On 12 August 2005, it changed its name to Kencana Petroleum Sdn Bhd. Subsequently, on 14 September 2005, it was converted to a public company limited by shares and since assumed its name of Kencana Petroleum Berhad.

Kencana Petroleum is an investment holding company. Through its subsidiaries, the Group is a provider of integrated engineering and fabrication of production facilities for the oil and gas industry. The principal business activities of the Group are as follows:

- Engineering and Fabrication of Production Facilities;
- Engineering and Fabrication of Modules;
- Engineering and Fabrication of Process Skid Systems;
- EPCC Services;
- Provision of Supporting Services; and
- Specialised Fabrication.

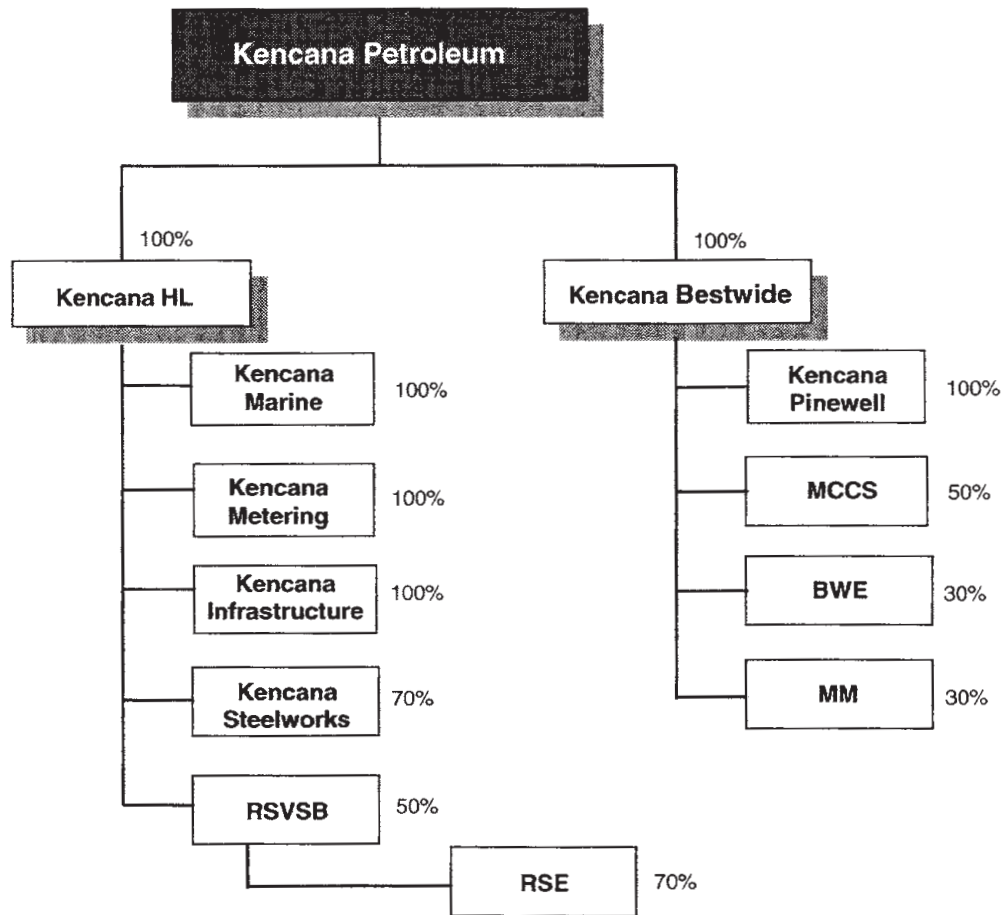
The Group has multi-disciplined engineering capabilities and is staffed with capable and qualified personnel with product knowledge and experience in the oil and gas industry. With Kencana Petroleum Group via Kencana HL possessing more than 24 years of experience in the oil and gas industry, Kencana Petroleum Group has established itself as a major oil and gas service provider with revenue of approximately RM437.3 million for the financial year ended 31 July 2006.

Kencana Petroleum Group consists of two major groups of companies namely Kencana HL Group and Kencana Bestwide Group. Together, Kencana HL Group and Kencana Bestwide Group formed a synergistic partnership to complement each other's expertise to provide integrated solutions for EPCC projects and total turnkey solutions for engineering and fabrication of production facilities in the oil and gas industry.

Due to the complexity and safety requirements for oil and gas production facilities, the ability to provide integrated engineering and fabrication solution is highly regarded in the oil and gas industry locally as well as internationally. Kencana Petroleum Group is one of the few Malaysian companies that have the capability to provide total turnkey solutions for engineering and fabrication of oil and gas production facilities.

**1. SUMMARY INFORMATION (Cont'd)**

As at 11 October 2006, the corporate structure of Kencana Petroleum Group together with the jointly controlled entities and associated companies of Kencana Petroleum is as follows:



Kencana HL is an established provider of integrated engineering and fabrication of production facilities for the oil and gas industry. The history of Kencana HL can be traced back to its incorporation in 1982. Kencana HL was founded by Chong Hin Loon (presently the Non-Independent Deputy Executive Chairman) and was established as a resident contractor for major fabrication yards in Malaysia, primarily engaged in supplying skilled and unskilled manpower.

In 2000, Kencana HL began operation in the Lumut Fabrication Yard, its current major fabrication yard located at Lumut Industrial Park, Perak, which is well equipped with modern facilities, covered workshop and equipment. By early 2005, the Lumut Fabrication Yard has expanded from the initial size of approximately 11 acres to a total yard area of approximately 53 acres with approximately 185,000 and 27,000 square metres of open and covered fabrication space respectively. The Lumut Fabrication Yard has an estimated annual capacity of approximately 24,000 tonnes.

**1. SUMMARY INFORMATION (Cont'd)**

Kencana Bestwide is an established provider of EPCC, design and engineering services. Kencana Bestwide which was incorporated in 1995 was established and founded by Ir Cher Lee Kiat and subsequently joined by Ir Tan Siew Lee. Together, they have been instrumental to the growth and success of the business. Kencana Bestwide has successfully established itself as a provider of design and engineering services focused on the oil and gas industry. Since inception, Kencana Bestwide was involved in the provision of engineering and project management services, design and supply of skidded process systems, maintenance, and supply of specialised manpower primarily serving the oil, gas and petrochemical industries in Malaysia.

Kencana Petroleum Group's strategic vision is to move up the oil and gas industry value chain, with an ultimate goal of developing into an integrated oil and gas engineering, fabrication and production operation services provider. In April 2006, Kencana Petroleum Group secured its first EPCIC project and plans to further expand its EPCIC services. Leveraging off the Group's current skill set as an integrated engineer and fabricator of production facilities, the Group's medium term goal is to develop the capability to undertake oil and gas production operations services such as provision and management of production facilities (both onshore and offshore) and full operations and maintenance of production facilities.

The principal activities of the subsidiaries and jointly controlled entities of Kencana Petroleum are as follows:

<b>Corporation</b>	<b>Principal Activities</b>
<b>Subsidiaries</b>	
Kencana HL	Integrated engineering and fabrication of production facilities
Kencana Bestwide	EPCC, design and engineering and project management
Kencana Marine	Operation and management of fabrication yard
Kencana Metering	Pipeline construction, process skid systems and metering works
Kencana Infrastructure	Specialised fabrication and infrastructure construction
Kencana Pinewell	Electrical and instrumentation services
Kencana Steelworks	Dormant
<b>Jointly Controlled Entities</b>	
RSVSB	Investment holding company and management services
RSE *	Operation and management of fabrication yard
MCCS	Hook-up and commissioning services

\* *Subsidiary of RSVSB*

Further details on the history and business of the Group are set out in Section 4 of this Prospectus.

**1. SUMMARY INFORMATION (Cont'd)****1.2 COMPETITIVE STRENGTHS**

Kencana Petroleum Group's success and future prospects in the oil and gas industry are bolstered by a combination of strengths, including the following:

- (i) Integrated engineering and fabrication capabilities
- (ii) Ownership of major fabrication yard
- (iii) Quality control and safety track record
- (iv) Strong market reputation and established track record
- (v) Petronas approved license and other registrations
- (vi) Experienced management and skilled technical team

Further details on Kencana Petroleum Group's competitive strengths are set out in Section 4.2.2 of this Prospectus.

**1.3 PROMOTERS, SUBSTANTIAL SHAREHOLDERS AND DIRECTORS OF KENCANA PETROLEUM**

Kencana Petroleum's Promoters are Khasera Baru, Chong Hin Loon and Best Wide Holdings. Kencana Petroleum's substantial shareholders are Khasera Baru, Dato' Mokhzani bin Mahathir, Chong Hin Loon, Best Wide Holdings and Ir Cher Lee Kiat.

The Directors of Kencana Petroleum are as follows:

<b>Name</b>	<b>Designation</b>
Dato' Mokhzani bin Mahathir	Non-Independent Executive Chairman
Chong Hin Loon	Non-Independent Deputy Executive Chairman
Zainal Rashid bin Mokhtar	Non-Independent Executive Director / Group Chief Executive Officer
Yeow Kheng Chew	Non-Independent Executive Director
Ir Cher Lee Kiat	Non-Independent Executive Director
Azmi bin Ismail	Independent Non-Executive Director
Mohd Adzahar bin Abdul Wahid	Independent Non-Executive Director

Further details of the Promoters, substantial shareholders and Directors of Kencana Petroleum are set out in Section 5 of this Prospectus.

**1. SUMMARY INFORMATION (Cont'd)****1.4 DETAILS ON THE IPO**

The summary of the details of the IPO is set out as follow:

**Public Issue** : The Public Issue will be allocated in the following manner:

- (i) 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;
- (ii) 141,000,000 Issue Shares, representing approximately 16.02% of the enlarged issued and paid-up share capital of Kencana Petroleum, by way of private placement to selected investors; and
- (iii) 15,000,000 Issue Shares, representing approximately 1.70% of the enlarged issued and paid-up share capital of Kencana Petroleum, will be made available for application by eligible Directors and employees, and persons who have contributed to the success of Kencana Petroleum Group.

**Price per Issue Share** : RM0.41

Details on the salient information on the IPO are set out in Section 2 of this Prospectus.

**1.5 PROPOSED UTILISATION OF PROCEEDS**

The estimated total gross proceeds to the Company arising from the IPO of approximately RM82.0 million is expected to be utilised by the Group in the following manner:

	<b>Amount (RM'000)</b>
Repayment of borrowings	25,000
Working capital	53,000
Estimated listing expenses <sup>(Note 2)</sup>	4,000
<b>Total gross proceeds</b> <sup>(Note 1)</sup>	<b>82,000</b>

*Notes:*

- (1) Calculation of the gross proceeds arising from the IPO is based on the IPO Price of RM0.41 per Kencana Petroleum Share.
- (2) Any unutilised proceeds amount shall be used for working capital.

The estimated net proceeds to the Company (excluding estimated listing expenses) is approximately RM78.0 million. Further details on the utilisation of proceeds are set out in Section 2.7 of this Prospectus.

**1. SUMMARY INFORMATION (Cont'd)****1.6 PROFORMA CONSOLIDATED INCOME STATEMENTS**

The summary of proforma consolidated financial results set out below have been prepared to illustrate what 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 this Prospectus had been in place since the beginning of the periods being reported on. The proforma consolidated results are prepared for illustrative purposes only and should be read in conjunction with the accompanying notes and assumptions set out in Section 9.1 of this Prospectus.

	Financial year ended 31 July		
	2004	2005	2006
	RM'000	RM'000	RM'000
Revenue	180,607	270,814	437,335
Gross profit	37,238	47,036	52,818
EBITDA	26,886	34,003	38,345
Depreciation	(2,437)	(3,576)	(5,766)
Profits from operations	24,449	30,427	32,579
Interest expense	(1,169)	(2,515)	(4,582)
Interest income	205	192	737
Share of results of associated companies	203	273	269
Share of results of jointly controlled entity	10	12	104
Profit before taxation	23,698	28,389	29,107
Tax expense	(5,640)	(6,951)	(2,427)
Share of tax of associated companies	(44)	(56)	(68)
Share of tax of jointly controlled entity	(142)	(104)	104
<b>Profit after taxation</b>	<b>17,872</b>	<b>21,278</b>	<b>26,716</b>

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**1. SUMMARY INFORMATION (Cont'd)****1.7 PROFORMA CONSOLIDATED BALANCE SHEETS AS AT 31 JULY 2006**

The proforma consolidated balance sheet of Kencana Petroleum Group as at 31 July 2006 as set below have been prepared for illustrative purpose only and should be read in conjunction with the accompanying notes and assumptions set out in the Proforma Consolidated Balance Sheets as at 31 July 2006 as set out in Section 9.2 of this Prospectus.

	Audited balance sheet as at 31 July 2006 RM'000	Proforma consolidated balance sheet Stage 1 RM'000	Proforma consolidated balance sheet Stage 2 RM'000	Proforma consolidated balance sheet Stage 3 RM'000
<b>Property, plant and equipment</b>	-	126,203	126,203	126,203
<b>Investments</b>	60,000	-	-	-
<b>Investments in associated companies</b>	-	856	856	856
<b>Investments in jointly controlled entities</b>	-	(15)	(15)	(15)
<b>Goodwill</b>	-	771	771	771
<b>Long term advances</b>	12,999	-	-	-
	72,999	127,815	127,815	127,815
<b>Current assets</b>				
Trade and other receivables	1,000	135,505	135,505	135,505
Tax recoverable	-	10,461	10,461	10,461
Cash and cash equivalents	6,001	53,829	106,829	124,869
	7,001	199,795	252,795	270,835
<b>Current liabilities</b>				
Trade and other payables	7	99,841	99,841	99,841
Borrowings	-	76,693	51,693	51,693
Taxation	-	2,088	2,088	2,088
	7	178,622	153,622	153,622
<b>Net current assets</b>	6,994	21,173	99,173	117,213
	79,993	148,988	226,988	245,028
<b>Financed by:</b>				
<b>Capital and reserves</b>				
Share capital	60,000	68,000	88,000	92,400
Share premium	-	12,000	70,000	83,640
Retained profits	(7)	46,484	46,484	46,484
<b>Shareholders' funds</b>	59,993	126,484	204,484	222,524
<b>Long term and deferred liabilities</b>				
Deferred tax	-	8,313	8,313	8,313
Borrowings	-	13,616	13,616	13,616
Amount owing to Khasera Baru	20,000	-	-	-
Amount owing to associated companies	-	575	575	575
	20,000	22,504	22,504	22,504
	79,993	148,988	226,988	245,028
<b>NTA (RM)</b>	59,993	125,713	203,713	221,753
<b>NTA per share (RM)</b>	0.10	0.18	0.23	0.24

**1. SUMMARY INFORMATION (Cont'd)***Notes:*

- Stage 1 – Consolidation of the financial position of Kencana HL and Kencana Bestwide upon Kencana Petroleum obtaining control over the financial and operating policies of the companies and the Capitalisation of Advances.*
- Stage 2 – Incorporates Stage 1, IPO and utilisation of proceeds and after adjusting for estimated listing expenses of approximately RM4.0 million against the Share Premium Account.*
- Stage 3 - Incorporates Stage 2 and ESOS assuming the full exercise of the options under ESOS would be 5% of the enlarged issued and paid-up share capital of Kencana Petroleum representing 44,000,000 Shares at the illustrative price of RM0.41 per Share under the ESOS.*

**1.8 CONSOLIDATED PROFIT FORECAST**

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

<b>Financial year ending 31 July</b>	<b>Forecast 2007<sup>(Note 3)</sup> (RM'000)</b>
Consolidated net profit after taxation and minority interest	45,238
Enlarged issued and paid-up share capital ('000)	880,000
Net EPS (sen) <sup>(Note 1)</sup>	5.14
Net PE Multiple (times) <sup>(Note 2)</sup>	7.98

*Notes:*

- (1) *Based on the consolidated net profit after taxation and minority interest divided by the enlarged issued and paid-up share capital.*
- (2) *Based on the IPO Price of RM0.41 per Kencana Petroleum Share.*
- (3) *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.*

Further information on the consolidated profit forecast is set out in Section 9.7 of this Prospectus.

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**1. SUMMARY INFORMATION (Cont'd)**

**1.9 SUMMARY OF MATERIAL RISK FACTORS**

Applicants for the Issue Shares should carefully consider the following risk factors (which are not exhaustive) in addition to the other information contained elsewhere in this Prospectus before applying for the Issue Shares:

<b>Item</b>	<b>Risk factors</b>
(a)	Oil Exploration, Development and Production Activities in Malaysia
(b)	Dependence on Customers
(c)	Competition
(d)	Operational Risks
(e)	Licences and Registrations
(f)	Overseas Operation Risks
(g)	Dependence on Directors, Key Management and Skilled Workforce
(h)	Delay in Completion of Projects
(i)	Fluctuation in the Price of Raw Materials
(j)	Foreign Exchange Risks
(k)	Financial Risks
(l)	Political and Economic Considerations
(m)	Technology and Experience
(n)	Security and Environmental Concerns
(o)	Restrictive Covenants
(p)	Achievability of Forecast Results
(q)	No Prior Market for Securities
(r)	Capital Market Risks
(s)	Volatility of Market Price due to Subsequent Sales
(t)	Control by Promoters
(u)	Failure/Delay in the Trading of the Issue Shares
(v)	Delay between Admission and Trading of the Issue Shares
(w)	Disclosure Regarding Forward-Looking Statements
(x)	Material Litigation, Claim or Arbitration and Legal Uncertainties

Detailed commentary on these risk factors is set out in Section 3 of this Prospectus.

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## 2. PARTICULARS OF THE IPO

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This Prospectus is dated 21 November 2006.

A copy of this Prospectus has been registered with the SC and lodged with the ROC who takes no responsibility for its contents.

**The approval of the SC for the IPO, as set out in Section 6.1, obtained via its letters dated 23 February 2006, 8 June 2006, 4 August 2006, 6 October 2006 and 19 October 2006, shall not be taken to indicate that the SC recommends the IPO and that investors should rely on their own evaluation to assess the merits and risks of the IPO.**

The approval-in-principle has been obtained from Bursa Securities for admission to the Official List of Bursa Securities and the listing of the entire enlarged issued and paid-up share capital of Kencana Petroleum, including new Shares to be issued pursuant to the exercise of Options, on the Main Board of Bursa Securities, via its letters dated 20 October 2005 and 3 November 2006. Listing and quotation for these Kencana Petroleum Shares will commence after, amongst others, receipt of confirmation from Bursa Depository of the receipt of allotment information for the crediting of the Shares, and receipt of an undertaking that all notices of allotment will be issued and despatched to all successful applicants prior to the date of listing and quotation of the Shares.

Acceptance of Application for the Issue Shares will be conditional upon permission being granted by Bursa Securities for the quotation of the entire enlarged issued and fully paid-up Kencana Petroleum Shares on the Main Board of Bursa Securities. Accordingly, monies paid in respect of any Application accepted from the IPO will be returned without interest within 14 days if the aforesaid permission is not granted within six (6) weeks from the date of issue of this Prospectus (or such longer period as may be specified by the SC) provided that the Company is notified by or on behalf of the Bursa Securities within the aforesaid timeframe. If such monies are not repaid within the said period, the provision of sub-section 52(2) of the Securities Commission Act, 1993 shall apply accordingly.

**Pursuant to Section 14(1) of the Securities Industry (Central Depositories) Act, 1991, Bursa Securities has prescribed Kencana Petroleum Shares as a Prescribed Security. In consequence thereof, the Kencana Petroleum Shares offered through this Prospectus will be deposited directly with Bursa Depository and any dealings in these Kencana Petroleum Shares will be carried out in accordance with the aforesaid Act and the Rules of Bursa Depository.**

Persons submitting applications by way of Application Forms or by way of Electronic Share Application or Internet Share Application must have a CDS Account. In the case of an application by way of Application Form, an application should state his/her CDS Account number in the space provided in the Application Form. In the case of an application by way of Electronic Share Application or Internet Share Application, only an applicant who is an individual and has a CDS Account can make an Electronic Share Application or Internet Share Application. A corporation or institution cannot apply for the Issue Shares by way of Electronic Share Application or Internet Share Application.

Pursuant to the Listing Requirements, the Company must have at least 25% of the total number of Kencana Petroleum Shares for which listing is sought in the hands of a minimum of 1,000 public shareholders holding not less than 100 Kencana Petroleum Shares each at the point of listing. In the event that the above requirement is not met pursuant to the IPO, the Company may not be allowed to proceed with its listing on the Main Board of Bursa Securities. In the event thereof, monies paid in respect of all Applications will be returned if the said permission is not granted.

## 2. PARTICULARS OF THE IPO (Cont'd)

The SC and Bursa Securities assume no responsibility for the correctness of any statements made or opinions or report expressed in this Prospectus. Admission to the Official List of the Main Board of Bursa Securities is not to be taken as an indication of the merits of the Company or of its shares.

No person is authorised to give any information or to make any representation not contained herein in connection with the IPO and if given or made, such information or representation must not be relied upon as having been authorised by Kencana Petroleum. Neither the delivery of this Prospectus nor any IPO made in connection with this Prospectus shall, under any circumstances, constitute a representation or create any implication that there has been no change in the affairs of Kencana Petroleum since the date hereof.

The distribution of this Prospectus and the making of the IPO in certain other jurisdictions outside Malaysia may be restricted by law. The distribution of this Prospectus and the sale of any part of the Issue Shares are subject to Malaysian laws and the Company takes no responsibility for the distribution of this Prospectus and the offer of any part of the Issue Shares outside Malaysia which may be restricted by law in certain other jurisdictions. Persons who may come into possession of this Prospectus are required to inform themselves of and to observe such restrictions. This Prospectus does not constitute and may not be used for the purpose of an invitation to subscribe for the Issue Shares in any jurisdiction in which such offer or invitation is not authorised or lawful or to any person to whom it is unlawful to make such offer or invitation.

**If you are in doubt concerning this Prospectus, you should consult your stockbroker, bank manager, solicitor, professional accountant, or any other professional advisers.**

### 2.1 PURPOSES OF THE IPO

The purposes of the IPO are as follows:

- (i) To provide an opportunity for the eligible Directors, employees and the Malaysian investing public and institutions to participate in the equity and continuing growth of the Group;
- (ii) To enhance the stature of Kencana Petroleum Group to market its services and capabilities, maintain its market position and expand its customer base;
- (iii) To provide additional funds to meet the present and future working capital requirements of the Group;
- (iv) To enable the Group to gain access to the capital markets to tap equity and debt funds for future expansion, diversification, modernisation and continued growth of the Group; and
- (v) To facilitate the listing of and quotation for the entire enlarged issued and paid-up share capital of Kencana Petroleum on the Main Board of Bursa Securities.

**2. PARTICULARS OF THE IPO (Cont'd)****2.2 SHARE CAPITAL**

As at 11 October 2006, being the latest practicable date prior to the printing of this Prospectus, there is only one (1) class of shares in Kencana Petroleum, being ordinary shares of RM0.10 each, the details of which are as follows:

	Number of Share of RM0.10 each	Share Capital (RM)
<b>AUTHORISED SHARE CAPITAL</b>	1,000,000,000	100,000,000
<b>ISSUED AND FULLY PAID-UP SHARE CAPITAL:</b>		
• Existing Kencana Petroleum Shares	680,000,000	68,000,000
• New Kencana Petroleum Shares to be issued pursuant to the IPO	200,000,000	20,000,000
<b>ENLARGED SHARE CAPITAL</b>	880,000,000	88,000,000
• New Kencana Petroleum Shares to be issued pursuant to the ESOS	44,000,000	4,400,000
<b>ENLARGED SHARE CAPITAL UPON FULL EXERCISE OF ESOS OPTIONS</b>	924,000,000	92,400,000

**Classes of Shares and Ranking**

There is only one (1) class of shares in the Company, namely, ordinary shares of RM0.10 each, all of which rank pari passu with one another. The Issue Shares will rank pari passu in all respects with the other existing issued and paid-up ordinary shares of the Company including voting rights and rights to all dividends and distributions that may be declared subsequent to the date of allotment thereof.

Subject to any special rights attaching to any shares which may be issued by the Company in the future, the holders of ordinary shares in the Company shall, in proportion to the amount paid-up on the ordinary shares held by them, be entitled to share in the whole of the profits paid out by the Company as dividends and other distributions and the whole of any surplus in the event of the liquidation of the Company, in accordance with its Articles of Association.

Each ordinary shareholder shall be entitled to vote at any general meeting of the Company in person or by proxy or by attorney, and on a show of hands, every person present who is a shareholder or representative or proxy or attorney of a shareholder shall have one vote, and, on a poll, every shareholder present in person or by proxy or by attorney or other duly authorised representative shall have one vote for each ordinary share held.

**2.3 DETAILS OF THE IPO**

The IPO is subject to the terms and conditions of this Prospectus and upon acceptance, the Issue Shares are expected to be allocated in the manner described below. All percentages of share capital stated in this section are based on the enlarged share capital upon Listing but before conversion of the Options.

**2. PARTICULARS OF THE IPO (Cont'd)****2.3.1 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:

- (i) 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;
- (ii) 141,000,000 Issue Shares, representing approximately 16.02% of the enlarged issued and paid-up share capital of Kencana Petroleum, by way of private placement to selected investors; and
- (iii) 15,000,000 Issue Shares, representing approximately 1.70% of the enlarged issued and paid-up share capital of Kencana Petroleum, will be made available for application by eligible Directors and employees, and persons who have contributed to the success of Kencana Petroleum Group.

The minimum level of subscription in respect of the IPO shall be the entire 200,000,000 Issue Shares from the Public Issue. The said minimum level of subscription has been determined based on the estimated level of funds to be raised from the IPO of approximately RM82.0 million and the number of shares required to meet the minimum public shareholding spread.

Any of the Issue Shares under Section 2.3.1(iii) herein, which are not taken up by the eligible Directors and employees of Kencana Petroleum Group, and persons who have contributed to the success of Kencana Petroleum Group will be made available for application by the investors under Section 2.3.1(i) herein. Any Issue Shares under Section 2.3.1(i) herein which are not taken up will be made available to selected investors via private placement if the Issue Shares under Section 2.3.1(ii) is oversubscribed.

The Issue Shares under Sections 2.3.1(i) and 2.3.1(iii) herein are fully underwritten. The Issue Shares under Section 2.3.1(ii) herein will not be underwritten as the shares have been made available for placement to exempt investors as defined under Schedule 2 and 3 of the Securities Commission Act, 1993, and irrevocable undertakings have been obtained for the subscription of the shares.

**2.3.2 Details of Allocation to Eligible Directors, Employees and Persons Who Have Contributed to the Success of Kencana Petroleum Group**

The eligible Directors and employees, and persons who have contributed to the success of the Group are allocated in aggregate 15,000,000 Issue Shares pursuant to the Preferential Share Allocation Scheme under the IPO as stated under Section 2.3.1(iii) herein.

376 eligible employees of Kencana Petroleum Group and two (2) independent directors of the Company are allocated with Issue Shares pursuant to the Preferential Share Allocation Scheme. None of the key management of the Group is eligible to the Issue Shares under Section 2.3.1(iii) herein. These shares were allocated to the eligible employees after taking into consideration their position, performance and length of service with the Group.

**2. PARTICULARS OF THE IPO (Cont'd)**

Save for the eligible directors of Kencana Petroleum set out below, none of the Directors of Kencana Petroleum are entitled to the allocation pursuant to the Preferential Share Allocation Scheme under Section 2.3.1(iii) herein:

Director	Designation	No of Shares Allocated
Azmi bin Ismail	Independent Non-Executive Director	300,000
Mohd Adzahar bin Abdul Wahid	Independent Non-Executive Director	300,000

**2.4 DETAILS OF THE UNDERWRITING**

Kencana Petroleum has entered into an Underwriting Agreement dated 16 October 2006 with the Underwriter for the underwriting of 59,000,000 Shares under the Public Issue.

Details of the Underwriting Agreement and the underwriting commission are set out in Section 15 of this Prospectus and Section 2.9 herein respectively.

**2.5 BASIS OF ARRIVING AT THE IPO PRICE**

The IPO Price of RM0.41 per Issue Share was determined and agreed upon by the Company and AmMerchant Bank as the Adviser, Managing Underwriter, Underwriter and Sole Placement Agent after taking into consideration, amongst others, the following factors:

- (i) The Group's operating and financial history and position as outlined in Section 4 of this Prospectus;
- (ii) The prospects of the industry in which the Group operates as outlined in Section 4.5 of this Prospectus;
- (iii) The forecast net PE Multiple of 7.98 times based on the forecast net EPS of 5.14 sen for the financial year ending 31 July 2007, the IPO Price of RM0.41 per Issue Share and the enlarged issued and paid-up share capital of 880,000,000 Kencana Petroleum Shares;
- (iv) The Proforma Consolidated NTA of Kencana Petroleum as at 31 July 2006 of RM0.23 per Share based on the enlarged issued and paid-up share capital of 880,000,000 Kencana Petroleum Shares upon Listing and after net utilisation of proceeds;
- (v) The future plans, strategies and prospects of Kencana Petroleum Group as set out in Section 4.8 of this Prospectus;
- (vi) Favourable outlook of the fabricated metal structure industry within the oil and gas sector as listed in Section 4.5.6 of this Prospectus; and
- (vii) Competitive strengths as listed in Section 4.2.2 of this Prospectus.

**2. PARTICULARS OF THE IPO (Cont'd)**

However, investors should also note that the market price of Kencana Petroleum Shares upon listing on Bursa Securities is subject to the vagaries of the market forces and other uncertainties which may affect the market price of Kencana Petroleum Shares being traded. Investors should form their own views on the valuation of the Issue Shares before deciding to invest in the Issue Shares.

**2.6 MARKET CAPITALISATION UPON LISTING**

Based on the IPO Price of RM0.41 per Issue Share and issued and fully paid-up share capital of 880,000,000 Kencana Petroleum Shares, Kencana Petroleum's market capitalisation upon Listing will be RM360.8 million.

**2.7 UTILISATION OF PROCEEDS**

The estimated total gross proceeds to the Company arising from the IPO of RM82.0 million is expected to be utilised by the Group for its core business activities during the period of twelve (12) months from the date of this Prospectus in the following manner:

	<b>Timing of Utilisation</b>	<b>Amount (RM'000)</b>
Repayment of borrowings	Within 3 months from listing	25,000
Working capital	Within 12 months from listing	53,000
Estimated listing expenses	Immediate	4,000
<b>Total gross proceeds</b>		<b>82,000</b>

**Notes:****(i) Repayment of Borrowings**

As at 11 October 2006, the Group has total outstanding borrowings amounting to approximately RM88.2 million. Of the total gross proceeds, RM25.0 million will be utilised towards the repayment of outstanding bank borrowings utilised by Kencana Petroleum Group as follows:

<b>Type of Bank Borrowings</b>	<b>Amount to be Settled (RM'000)</b>
Overdraft	2,268
Bankers acceptance	5,578
Trade loan	4,373
Term loan	3,172
Revolving credit	9,609
<b>Total</b>	<b>25,000</b>

**2. PARTICULARS OF THE IPO (Cont'd)**

The repayment of RM25.0 million represents approximately 30.5% of the total gross proceeds from the IPO. The Group anticipates that interest savings based on the average interest rate of approximately 7.2% per annum as a result of these repayments will be approximately RM1.8 million per annum.

**(ii) Working Capital**

Of the total gross proceeds, approximately RM53.0 million will be used as working capital relating to the core business activities of Kencana Petroleum Group including the payment of trade creditors, salaries, purchases and operating expenses. The Group will also be in a position to bid for larger projects and to develop the capability in providing a more comprehensive range of services in the oil and gas industry.

**(iii) Estimated Listing Expenses**

The estimated listing expenses for the listing of and quotation for the enlarged issued and paid-up share capital of 880,000,000 Kencana Petroleum Shares on the Main Board of Bursa Securities are as follows:

<b>Estimated Listing Expenses</b>	<b>Amount (RM'000)</b>
Fees to authorities	251
Professional fees <sup>(Note 1)</sup>	2,000
Estimated underwriting, selling commissions and brokerage fees	1,121
Printing, advertising and other miscellaneous expenses <sup>(Note 2)</sup>	628
<b>Total</b>	<b>4,000</b>

Notes:

- (1) Include fees for the Adviser, Reporting Accountants, Solicitors and other professional advisors.
- (2) Any unutilised amount shall be used for working capital purposes of the Group's core business activities.

The estimated listing expenses and fees, including brokerage, professional fees, underwriting and selling commission relating to the Issue Shares incidental to the Listing amounting to approximately RM4.0 million shall be borne by the Company.

**2.8 FINANCIAL IMPACT FROM UTILISATION OF PROCEEDS**

The utilisation of the proceeds from the Public Issue by the Group is expected to result in interest savings. The repayment of approximately RM25.0 million of outstanding borrowings will reduce the Group's gearing level from approximately 0.83 to 0.31 (based on the total outstanding borrowings as at 11 October 2006 and proforma shareholders' funds as at 31 July 2006 at Stage 2 of the Proforma Balance Sheets set out in Section 9.2 herein). At the average interest rate of approximately 7.2% per annum, Kencana Petroleum Group would be able to save interest cost totalling approximately RM1.8 million per annum.



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**2. PARTICULARS OF THE IPO (Cont'd)**

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**2.9 BROKERAGE AND COMMISSIONS**

Brokerage is payable by Kencana Petroleum in respect of the Issue Shares described in Section 2.3.1(i) herein, at the rate of 1.00% of the IPO Price in respect of successful applications which bear the stamp of member companies of the Bursa Securities, members of the Association of Banks in Malaysia, members of the Malaysian Investment Banking Association and/or MIH.

The Sole Placement Agent have agreed to place the Issue Shares set out in Section 2.3.1(ii) herein, which are reserved for selected investors. Accordingly, Kencana Petroleum will pay a placement fee to the Sole Placement Agent at the rate of 1.0%. The total placement fee will be calculated by the IPO Price multiplied by the number of Issue Shares described in Section 2.3.1(ii) herein.

The Company will pay the Underwriter an underwriting commission at the rate of 1.50% of the value of the underwritten Issue Shares under Sections 2.3.1(i) and 2.3.1(iii) herein (being the number of the underwritten Issue Shares multiplied by the IPO Price) to the Underwriter.

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### 3. RISK FACTORS

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Applicants for the Issue Shares should carefully consider the following risk factors (which are not exhaustive) in addition to the other information contained elsewhere in this Prospectus before applying for the Issue Shares:

**(a) Oil Exploration, Development and Production Activities in Malaysia**

Kencana Petroleum Group is a provider of integrated engineering and fabrication of production facilities for the oil and gas industry. 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. The factors which may affect the level of oil exploration, development and production activities include, inter alia:

**(i) Level of Oil Prices**

Oil prices have a direct bearing on the level of activities in the oil and gas industry. Exploration, development and production of crude oil reserves may tend to slow down when prices fall to a level where such activities are not commercially viable for oil and gas operators. Oil companies are likely to be motivated to explore and develop potential oil fields that are commercially feasible and profitable for the operators in the industry. Hence, in the prolonged period of lower oil prices may discourage various explorations, development and production activities resulting in lower demand for product and services provided by oil and gas support companies such as Kencana Petroleum Group.

Conversely, during the periods of upward movement in oil prices, it is expected that there may be an increase in oil exploration, development and production activities as the potential return from the upstream activity increases. In this event, the level of activities in the industry may increase resulting in a higher demand for Kencana Petroleum Group's products and services.

**(ii) Changes to Existing Terms of Petroleum Development Act 1974**

Petronas is the sole entity with ownership to the Malaysian crude oil and gas deposits under the Petroleum Development Act 1974 and governs and oversees the licensing, safety, contractual and work scope of oil and gas service providers that are operating in Malaysia. Any investment to undertake the exploration and extraction of crude oil and gas in Malaysia can only be carried out by holding a PSC with Petronas. A contractor under the PSC enjoys exclusivity for the contract of petroleum exploration, development and production operations in the defined block or area for a specified period. The contractor also reserves the right to execute the operations, recover the operating costs and share the profits from the sale of crude oil with Petronas in the agreed proportions. On the other hand, Petronas reserves the right to manage the operations, approve the annual work program and budget, and is also entitled to use, amongst others, the facilities, infrastructure and data collated.

Any adverse change or development to the current terms of the PSC such as reduction of profit sharing of the contractors under the PSC may lower the level of oil exploration, development and production activities as the contractors will be less motivated to carry out crude oil exploration and extraction activities in Malaysia.

The reduction in the level of oil exploration and extraction will lower the demand for product and services provided by oil and gas support companies such as Kencana Petroleum Group.

**3. RISK FACTORS (Cont'd)**

Nevertheless, as the oil and gas industry is one of the major contributor to the Malaysian economy, both as a source of energy and a major foreign exchange earner, it is expected that there will be continued growth in the industry in terms of steady stream of contracts and in turn, revenue and growth in the long term.

The Group is also presently servicing oil exploration companies in New Zealand, Australia, Malaysia-Thailand Joint Development Area and Sudan. It intends to expand its overseas activities in order to reduce dependency on any single geographical market. Kencana Petroleum Group has been constantly seeking overseas opportunities by participating in collaborations, either as a sub-contractor or part of a consortium, or as a joint-venture partner with international turnkey contractors to secure projects in the international markets.

**(b) Dependence on Customers**

The main customers of Kencana Petroleum Group being, White Nile (5B) Petroleum Operating Company Ltd, Petronas Carigali Sdn Bhd, Global Process Systems Sdn Bhd and Nam Fatt Construction Sdn Bhd have contributed approximately 67.7% of Kencana Petroleum Group's total revenue for the 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 revenue, amounting to approximately RM424.5 million. The remaining 2.9% of the revenue was earned from eighteen (18) other customers.

However, there is no guarantee that the business relationship with these customers will not be disrupted and the tendered and forecasted projects will be secured and completed within the expected contract sum and profit margin, which may adversely affect Kencana Petroleum Group's revenue and profitability.

Nevertheless, Kencana Petroleum Group has good business relationship with these customers, which mitigates any possible disruption to such relationship, which would in turn affect Kencana Petroleum Group's revenue. For the financial year ended 31 July 2006, approximately 50.0% of the top twenty (20) customers have dealt with the Group for more than three (3) years.

Furthermore, 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 Carigali Hess Operating Company Sdn Bhd (formerly known as Carigali-Triton Operating Company Sdn Bhd) (Malaysia-Thailand Joint Development Area), 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 in the long term.

### 3. RISK FACTORS (Cont'd)

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#### (c) Competition

Kencana Petroleum Group faces competition from other local licensed service providers in the oil and gas industry. Although there is competition between local licensed service providers in the industry, the threat from new entrants is relatively low due to moderately high barriers to entry in terms of high start-up costs and working capital resources, technical expertise, skilled and experienced workforce and the requirements for licenses and registrations as set out in Section 4.2.5 of this Prospectus.

As for competition between local licensed service providers in the industry, there are only seven (7) Petronas-licensed major fabricators (offshore structures) who are eligible to bid for any fabrication contracts tendered by the PSC operators in Malaysia and Kencana HL, a wholly-owned subsidiary of Kencana Petroleum is one of the license holders. Whilst Kencana Petroleum believes that track record of its Lumut Fabrication Yard and team of experienced and skilled key management will enable the Group to remain competitive in the future, there can be no assurance that Kencana Petroleum will be able to maintain or increase its market share in the future in light of competition from existing players and/or potential new entrants to this industry.

This risk is mitigated by its competitive price, quality of service, high safety standards, prompt delivery, and yard capacity. Kencana Petroleum Group has the in-house facilities and technical skills to undertake the full range of design and engineering work that is required for the fabrication of total production facilities, modules, process skid systems and other structures. The capability enables the Group to provide a total turnkey solution under one-roof and manage all aspects of the project. Please refer to Section 4.2.2 of this Prospectus for competitive strengths of the Group.

#### (d) Operational Risks

Kencana Petroleum Group is susceptible to various operational risks such as accidents, fire breakout and energy crisis which may affect the operation of its business.

Kencana Petroleum Group seeks to limit the above risks through the implementation of the following plans and risk management practices:

- (i) Kencana Petroleum Group ensures that the Lumut Fabrication Yard meets all the safety requirements stipulated under the HSE Guidelines, which are issued by Petronas. Under the HSE Guidelines, any accidents or injuries to employees occurred in the yard will cause the yard to be closed for investigation by Petronas. Such a disruption could materially affect Kencana Petroleum's business, financial condition and results of operations.

The Group mitigates the above risk by conducting in-house training and briefing updates on safety requirements on a continuous basis. All the Group's operational personnel are required to undergo a formal safety course and training to ensure that all employees on the fabrication yard are aware of the safety rules under the HSE Guidelines. As at 11 October 2006, the Group has recorded 1.03 Total Recordable Case Frequency; indicating that the Group has been practicing a robust safety control system.

### 3. RISK FACTORS (Cont'd)

- (ii) The Group's facilities such as its fabrication yards in Lumut, Perak and workshop in Kemaman, Terengganu are equipped with the regulatory basic fire fighting equipment such as fire extinguishers and hose reels. Employees are trained with these equipment as well as proper fire fighting techniques; and
- (iii) The Group has its own generators to provide sufficient electricity for its day-to-day operations at its Lumut Fabrication Yard. However, prolonged disruption of electricity would affect the overall operational efficiencies of the Group.

In the above events, the Directors of the Group are of the opinion that its assets consisting mainly of the Lumut Fabrication Yard, raw materials, office equipment and employees are adequately insured for public liability, fire, theft and personal accident for staff.

Nevertheless, there are other uninsurable risks such as natural disaster, which may adversely affect the operations of the Group. The Directors of Kencana Petroleum wish to highlight that the Group's operation has been unaffected by any natural disaster thus far.

#### (e) Licences and Registrations

The Group's qualification to tender for and secure various oil and gas projects in Malaysia is dependent on the licenses and registrations as set out in Section 4.2.5 of this Prospectus. All of these licenses and registrations are valid for certain periods of time with the renewal based on the Group's compliance with those requirements imposed by the relevant authorities. Failure by Kencana Petroleum Group to renew, maintain or obtain the required licences and registration may have an adverse effect on Kencana Petroleum Group's results of operations, financial condition and prospects.

There is no assurance that the licences and registrations will be renewed, or if they are renewed, that such renewal would be effected within the anticipated time frame or without any new terms and conditions imposed, which may materially affect the operations of Kencana Petroleum Group. However, the Group will continue to ensure that it is in compliance with the requirements at all times and the Directors of Kencana Petroleum are confident of the on-going renewals of the licenses and registrations as the Group has no instances of failure to obtain the renewals in the past.

#### (f) Overseas Operation Risks

Kencana Petroleum has already begun to expand its oil and gas product and service activities in Sudan 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. Adverse developments in political, economic, government control and regulatory framework in Thailand, South Asia, Australasia, North Africa and the Middle East could affect the financial prospects of the Group.

There can also be no assurance that any change in the policies of the foreign governments with respect to foreign investment and repatriation of profits will not materially and adversely affect the rights and performance of Kencana Petroleum Group.

**3. RISK FACTORS (Cont'd)**

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Nevertheless, the Group mitigates the above risks by exercising prudence and conducts thorough research and analysis prior to venturing into overseas projects or entering into any business contracts. The Group will also seek to mitigate the above risks by entering into joint venture with strong local and international partners with good knowledge of local laws and regulatory framework in the respective countries.

**(g) Dependence on Directors, Key Management and Skilled Workforce**

Being in a highly specialised industry, Kencana Petroleum Group believes that its continued success will depend, to a significant extent, upon the abilities and continued efforts of its Directors, key management personnel and skilled workforce. Kencana Petroleum Group is led by experienced Directors and is managed by a team of qualified key personnel who have extensive knowledge and experience in the oil and gas industry. This is well demonstrated by the Group's established track records for serving multinational oil and gas industry operators and overseas specialised service providers in the oil and gas industry. The credentials and list of Directors and key management of Kencana Petroleum Group are set out in Section 5 of this Prospectus.

Furthermore, the nature of the business demands both the management team and workforce to be highly skilled and technically competent in quality and safety. Stringent safety measures are in place to prevent and eliminate hazards in the work environment. Progressive and continuous courses are organised by the Company to further develop the workers' skill and technical competence and also to update them on new safety measures introduced within the country.

Accordingly, the loss of any key personnel may have an impact on its ability to compete effectively in the industry. Therefore, every effort is made to attract, groom and retain the junior and middle management for succession planning to ensure smooth transition in management should changes occur. Kencana Petroleum motivates its employees by awarding bonuses based on each employee's performances and expects to increase employees loyalty through ESOS. This will ensure the continued performance and success of Kencana Petroleum Group in the future.

**(h) 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.

**(i) Fluctuation in the Price 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.

### 3. RISK FACTORS (Cont'd)

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.

As the market price of steel affects all other fabricators of oil and gas production facilities, modules, process skid systems and other structures and equipment, it is unlikely that any of the Group's competitors will be able to utilise these fluctuations to gain a competitive advantage.

However, there can be no assurance that any fluctuation in the price of raw materials will not adversely affect Kencana Petroleum Group.

#### (j) Foreign Exchange Risks

Kencana Petroleum Group is subjected to foreign exchange risk through revenue earned and purchases made that are denominated in foreign currency. Kencana Petroleum Group mitigates foreign currency risk by seeking to achieve a "natural hedge" by entering into contracts such that revenue earned and purchases made will be denominated in the same currency. The Group also intends to utilise forward contracts to hedge against fluctuations in foreign exchange in the near future, if necessary.

However, there can be no assurance that any fluctuation in the exchange rates will not adversely affect Kencana Petroleum Group.

#### (k) Financial Risks

Save as disclosed in Section 9.5.3 of this Prospectus, the Group does not have any other borrowings and indebtedness in the form of borrowings. As at 11 October 2006, (being the latest practicable date prior to the printing of this Prospectus), the Group's total outstanding borrowings amounted to approximately RM88.2 million.

Some of the Group's working capital requirements are met partially by borrowings and internally generated funds. Given that the Group has borrowings and the payment of the loan interest is dependent on interest rate, future fluctuations of the interest rate could have material effects on the Group's interest and principal repayment.

#### (l) Political and Economic Considerations

Changes in political and economic conditions in Malaysia and the countries in which it operates 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 and global economic downturn.

### 3. RISK FACTORS (Cont'd)

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Whilst Kencana Petroleum Group practices prudent financial management and efficient operating procedures, there is no assurance that adverse political and economic development, which is beyond the Company's control, will not materially affect Kencana Petroleum Group.

#### (m) Technology and Experience

Kencana Petroleum Group is operating in a highly specialised industry that requires specialised knowledge. Such knowledge is mainly acquired through on-the-job experience whilst industry specific skills are mainly developed to an acceptable level of technical competence over time.

In view of such knowledge that is fundamental to the business, Kencana Petroleum Group is constantly seeking opportunities and taking effective measures to enhance its technical knowledge and experience by participating in collaborations, either as sub-contractor or part of a consortium, or as a joint-venture partner with international turnkey contractors.

The Group is also well equipped with advance software for its design and structure testing and for its technology knowledge such as welding technology, non-destructive testing technology and corrosion prevention technology as detailed out in Section 4.2.4 of this Prospectus. The Group also uses licensed third-party carbon dioxide membrane filtration technology for its carbon dioxide removal modules and skid. The risk associated with such technology is that the aforesaid software and technology could experience obsolescence, which may impact its operations. The Group may have to obtain a new licensed third-party technology to remain competitive and effective in its operations.

#### (n) Security and Environmental Concerns

The Group's process does not result in any significant environmental issues, as it does not produce any significant scheduled waste. The unwanted scrap metals are usually recycled. However, there can be no assurance that any future environmental issues would not materially and adversely affect the Group's operations.

#### (o) Restrictive Covenants

Kencana Petroleum Group has entered into various credit facility agreements with banks or financiers to finance its operations and business activities. These agreements may limit Kencana Petroleum Group's operating and financial flexibilities. Any act by Kencana Petroleum Group falling within the scope of restrictive covenants in such credit facilities agreements may give rise to a right by the banks or financiers to terminate the relevant credit facility and/or enforce any securities granted in relation to that credit facility which may cause a cross default on other credit facilities.

There can be no assurance that the prior consent can be obtained nor the aforesaid enforcement of the right by the banks or financiers will not have any adverse impact on Kencana Petroleum Group's operations and financial results.



**3. RISK FACTORS (Cont'd)**

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**(p) Achievability of Forecast Results**

Sections 9.7 and 9.8 of this Prospectus contain the consolidated forecast results of Kencana Petroleum Group that is based on assumptions with respect to the contracts secured, cost, interest rates and other matters of an operational or financial nature which according to the views of the Directors of Kencana Petroleum are reasonable.

Therefore, due to the inherent uncertainties which are involved in the preparation of the forecast, and because events and circumstances may not occur as expected, there can be no assurance that the forecast contained herein will be realised and actual results may be materially different from those shown. Further, no assurance can be given that any change in these factors will not have an adverse effect on the business/operations of Kencana Petroleum Group.

**(q) No Prior Market for Securities**

There has been no prior public market for the Company's securities. There can be no assurance that an active public market will be developed or sustained after this IPO or that the market price of the securities will not decline below the IPO price. The Company believes that a variety of factors could cause the price of the Company's securities to fluctuate and such fluctuations may adversely affect the market price of the Company's securities.

**(r) Capital Market Risks**

The performance of the local bourse is very much dependent on external factors such as the performance of the regional and world bourses and the inflow or outflow of foreign funds. Sentiments are also largely driven by internal factors such as the economic and political conditions of the country as well as the growth potential of the various sectors of the economy. These factors invariably contribute to the volatility of trading volumes witnessed on Bursa Securities, thus adding risks to the market price of the listed securities. Nevertheless, the profitability of Kencana Petroleum Group is not dependent on the performance of Bursa Securities as the business activities of Kencana Petroleum Group have no direct correlation with the performance of securities listed on Bursa Securities.

**(s) Volatility of Market Price due to Subsequent Sales**

Sales of substantial amounts of securities in the public market after the IPO could adversely affect the market price of the Company's securities and the Company's ability to raise capital in the future in the equity market.

**(t) Control by Promoters**

Upon listing of Kencana Petroleum, Khasera Baru, Best Wide Holdings and Chong Hin Loon will collectively hold 67.83% of the enlarged issued and paid-up share capital of Kencana Petroleum. As a result, the Promoters, if acting together, will still be able to, in the foreseeable future, effectively control the business direction and management of Kencana Petroleum Group as well as influence the outcome of certain matters requiring the vote of the Company's shareholders unless the Promoters are required to abstain from voting by law and/or by the relevant authorities.

**3. RISK FACTORS (Cont'd)**

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**(u) Failure/Delay in the Trading of the Issue Shares**

The occurrence of any one or more of the following events may cause a delay in or cancellation of the listing of Kencana Petroleum Shares on the Main Board of Bursa Securities:

- (i) The identified investors failing to subscribe to the portion of Shares intended to be placed to them;
- (ii) The Underwriter exercising their rights pursuant to the underwriting agreement to discharge themselves from their obligations thereunder; or
- (iii) The Company being unable to meet the public spread requirement as determined by Bursa Securities, including a minimum of 1,000 public shareholders holding not less than 100 Kencana Petroleum Shares each upon completion of the IPO and at the point of Listing.

**(v) Delay between Admission and Trading of the Issue Shares**

The date of Admission will normally occur at least two (2) clear Market Days after the Issue Shares have been allocated to investors' respective CDS Accounts in Bursa Depository. Delays in the Admission and the commencement of trading in shares on Bursa Securities have occurred previously. In order for Kencana Petroleum to return monies to investors in respect of Issue Shares following their allotment and issue, a reduction of Kencana Petroleum's share capital would be required. This would require a special resolution of its shareholders and such resolution would have to be confirmed by the Malaysian High Court. There can be no assurance that monies can be recovered within a short period of time or at all. If Bursa Securities does not admit the Kencana Petroleum Shares for the listing, the market for the Kencana Petroleum Shares will be illiquid and it may not be possible to trade the Kencana Petroleum Shares. This may also have a material adverse effect on the value of Kencana Petroleum Shares.

**(w) Disclosure Regarding Forward-Looking Statements**

This Prospectus includes forward-looking statements, which are statements other than statements of historical facts, including, without limitations, those regarding Kencana Petroleum's financial position, business strategy, plans and objectives of the management for future operations, are forward looking statements. Such forward-looking statements involve known and unknown risks, uncertainties and other factors which may cause the actual results, performance or achievements of Kencana Petroleum or industry results, to be materially different from any future results, performance or achievements expressed or implied by such forward-looking statements. Such forward-looking statements are based on numerous assumptions regarding Kencana Petroleum's present and future business strategies and the environment in which Kencana Petroleum's present and future business strategies and the environment in which Kencana Petroleum will operate in the future. Such factors include, inter-alia, general economic and business conditions, competitions, the impact of new laws and regulations affecting Kencana Petroleum and the industry, changes in interest rates and changes in foreign exchange rates. In light of these uncertainties, the inclusion of such forward-looking statement in this Prospectus should not be regarded as a representation or warranty by the Company or its advisers that the plans and objectives of Kencana Petroleum will be achieved.

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**3. RISK FACTORS (Cont'd)**

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**(x) Material Litigation, Claim or Arbitration and Legal Uncertainties**

Save for the material litigation disclosed in Section 14.5 of this Prospectus, the Group is not engaged in any material litigation, claim and arbitration, either as plaintiff or defendant, which has a material effect on the financial position of Kencana Petroleum or its subsidiaries and the Directors do not know of any proceedings pending or threatened or of any facts likely to give rise to any proceedings which might materially and adversely affect the position or business of Kencana Petroleum or its subsidiaries. However, there can be no assurance that the subsisting proceedings will not materially and adversely affect the position or business of the Group and there would be no additional proceedings that could adversely affect the positions or business of the Group in the future.

Being in the fabrication and engineering business within the oil and gas industry, Kencana Petroleum Group enters into various agreements in its ordinary course of business. The Directors of Kencana Petroleum are of the opinion that such agreements are properly prepared and executed, and are not aware of any legal uncertainty in respect of the said agreements.

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