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'Financial Statements and Related' Announcement

Issuer & Securities

Issuer/ Manager
KS ENERGY LIMITED

Securities

Name	ISIN	Stock Code
KS ENERGY LIMITED	SG1G91873040	578

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Announcement Details

Announcement Sub Title
Auditor's Comments of Accounts

Submitted By (Co./ Ind. Name)
Lai Kuan Loong Victor

Designation
Company Secretary

Contact Details
65365355

Effective Date and Time of the event
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Yes

Description (Please provide a detailed description of the event in the box below - Refer to the Online help for the format)
Please see attached.

Additional Details

For Financial Period Ended
31/12/2018

Attachments

For Public Dissemination

KS ENERGY LIMITED
An Integrated Energy Services Hub

DISCLAIMER OF OPINION BY INDEPENDENT AUDITORS

Pursuant to Rule 704(5) of the Listing Manual of the Singapore Exchange Securities Trading Limited, the Board of Directors of KS Energy Limited (the "Company" and together with its subsidiaries, the "Group") wishes to announce that the Company's independent auditor, KPMG LLP, has issued a disclaimer of opinion in their Independent Auditors' Report in relation to the Group's financial statements for the financial year ended 31 December 2018 ("FY2018").

Extracts of the disclaimer of opinion and basis for disclaimer of opinion in the Independent Auditors' Report, Note 2.1, Note 16, Note 17 and Note 29 to the Company's financial statements for FY2018 are attached to this announcement as "**APPENDIX I**".

Shareholders of the Company are advised to read the Company's financial statements for FY2018 set out in the Annual Report 2018 of the Company.

By Order of the Board
KS ENERGY LIMITED

Lai Kuan Loong Victor
Company Secretary

1 April 2019

For more information on KS Energy Limited, please visit our website at
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APPENDIX I

EXTRACT OF THE DISCLAIMER OF OPINION FROM THE INDEPENDENT AUDITORS REPORT

Disclaimer of Opinion

We were engaged to audit the financial statements of KS Energy Limited (the "Company") and its subsidiaries (the "Group"), which comprise the consolidated statement of financial position of the Group and the statement of financial position of the Company as at 31 December 2018, the consolidated statement of profit or loss and consolidated statement of comprehensive income, consolidated statement of changes in equity, consolidated statement of cash flows of the Group for the year then ended, and notes to the financial statements, including a summary of significant accounting policies, as set out on pages FS1 to FS103.

Because of the significance of the matters described in the '*Basis for disclaimer of opinion'* section of our report, we have not been able to obtain sufficient appropriate audit evidence to provide a basis for an audit opinion on these financial statements. Accordingly, we do not express an opinion on the accompanying financial statements.

Basis for disclaimer of opinion

a) Capital commitments

We draw attention to note 29 to the financial statements, which states that the Group has capital commitments totalling $489,020,000 for two rigs under construction (the "new builds"), of which $230,840,000 is due for delivery on 31 December 2019 and $258,180,000 is past due as at the date of this report. These sums shall become due and payable upon delivery of the new builds, which the vendor yards are contractually obliged to do so on the stated delivery dates. The financing arrangements to fund these new builds, however, have not yet been secured, while the Group continues to negotiate with the vendor yards on the contract terms and timing of delivery of these new builds. If, however, the contracts were subsequently discontinued, the rig construction costs of $64,212,000 included in note 17 – plant and equipment as at 31 December 2018, net of cost recovery from the yards where applicable, together with other effects associated with contract discontinuance, would have to be expensed in the statement of profit or loss. Such a financial outcome cannot be reliably assessed as at the date of this report, and accordingly, the consolidated financial statements for the year ended 31 December 2018 do not include any adjustments that may become necessary.

b) Plant and equipment

We draw attention to note 17 to the financial statements, which states the carrying amount of the Group's oil rigs at $388,065,000 as at 31 December 2018 net of cumulative impairment losses of $66,177,000. The Group has assessed that an impairment loss of $1,793,000 for rigs and other related assets is required for the current year. The recoverable amounts of the rigs were derived using the value in use method, as management does not consider that there is a sufficient level of transactions of oil rigs on a willing-buyer-willing-seller charter-free basis to properly appraise the market valuation in an orderly manner. Furthermore, it is management's intention to recover the value of its oil rigs through charters. The value in use is premised on future charter contracts to be obtained, with the assumption that the Group's oil rigs would be deployed progressively from July 2019. As at the date of this report, there is only one oil rig with a confirmed contract, secured for 12 months, out of nine oil rigs held by the Group (excluding the new builds). Owing to the continuing difficult market conditions in the oil and gas sector, which has affected the timing and utilisation of the Group's oil rigs, we are unable to satisfy ourselves over the appropriateness of those assumptions (refer to note 17 to the financial statements) used in arriving at the recoverable amounts of the Group's rigs.

c) Equity investments in subsidiaries (Company level)

We draw attention to note 16 to the financial statements, which states the net carrying amount of the Company's equity investments in subsidiaries comprising $47,251,000, net of cumulative impairment losses of $178,408,000 as at 31 December 2018. The net carrying amount of $47,251,000, net of cumulative impairment losses of $171,921,000, represents the Company's equity investment in KS Drilling Pte Ltd and its subsidiaries, whose assets substantially comprise the entire fleet of the Group's oil rigs and new builds. Due to the aforementioned section (b) which states that we are unable to satisfy ourselves over the appropriateness of assumptions used in arriving at the recoverable amounts of the Group's oil rigs, we are also unable to satisfy ourselves over the recoverability of the Company's equity investment in KS Drilling Pte Ltd and its subsidiaries.

d) Going concern

We draw attention to:

- Note 2.1 to the financial statements which indicates that the Group incurred a net loss of $53,939,000 for the year ended 31 December 2018 and, as of that date, the Group's and the Company's current liabilities exceed current assets by $18,334,000 and $2,508,000 respectively, and the Group and the Company had deficits in shareholders' equity of $10,296,000 (excluding non-controlling interests) and $11,667,000 respectively;
- Note 2.1 to the financial statements, $31,000,000 of the Group's bonds are subject to a proposed redemption through a proposed issuance of new ordinary shares in the capital of the Company to be approved by the Company's shareholders at an Extraordinary General Meeting; and
- The aforementioned section (a) where the Group has capital commitments of $489,020,000 as at 31 December 2018, and there are currently no financing arrangements put in place to meet the obligations.

It is the intention of the Group to continue to operate as a going concern. However, due to the above matters, there is significant doubt on the Group's and the Company's ability to continue as a going concern.

These conditions set out in (a), (b), (c) and (d) in the preceding paragraphs indicate the existence of multiple uncertainties that are significant to the financial statements as a whole. The financial statements do not include any adjustments that may be necessary as a result of these uncertainties.

EXTRACT OF NOTE 2.1 TO THE AUDTIED FINANCIAL STATEMENTS OF THE COMPANY FOR THE FINANCIAL YEAR ENDED 31 DECEMBER 2018

Going concern basis of accounting

The consolidated financial statements have been prepared on a going concern basis, which assumes that the Group will be able to meet its obligations as and when they fall due within the next twelve months.

The Group has recognised a loss after tax of $53,939,000 (2017: $24,559,000) for the year ended 31 December 2018 and as at that date, the Group's and the Company's current liabilities exceed current assets by $18,334,000 and $2,508,000 (2017: $2,450,000 and $19,706,000) respectively, and the Group and Company had deficits in shareholders' equity of $10,296,000 (excluding non-controlling interests) and $11,667,000 respectively. Improving the net current liability position of the Group and Company is a key concern for the Company. The financial statements for the year ended 31 December 2018 are prepared on a going concern basis, the validity of which is premised on the continuing availability of credit facilities to the Group for at least another twelve months from the reporting date, and the sufficiency of cash flows to be generated from (i) the Group's operating activities, and (ii) financing plans.

(i) Operating activities

Although the Group expects the overall operating environment to remain challenging in the next twelve months, it anticipates generating positive cash flows from existing rig charter contracts and prospective rig charter contracts. The Group expects to secure additional work for its rigs in South East Asia over the course of the year ahead with contract values of at least US$30 million. The operating cash flow forecast is derived from the chartering cash flow forecast, the forecast for other operating costs and the forecast for changes in working capital which are continuously reviewed by management.

(ii) Financing plans

The Group shall seek to divest any surplus assets when opportunities arise and currently expects to generate at least US$1.2 million from such divestments over the course of the year. The Group shall continue to work closely with its bankers and is confident of extending loan repayments of $5.7 million currently within current borrowings to allow the Group to meet its debt obligations as and when they fall due.

The Group has capital commitments of $258.2 million and $230.8 million for assets under construction due on 31 December 2018 and 31 December 2019 respectively. The Group continues to engage in discussions with the shipyards and, subject to obtaining the required financing, is expected to have sufficient resources to meet the capital commitments of the Group.

(iii) Capital plans

The Group also plans to redeem $31,000,000 of the Group's bonds, the consideration for which will be through a proposed issuance of new ordinary shares in the capital of the Company to be approved by the Company's shareholders at an Extraordinary General Meeting, thereby removing the deficit in shareholders' equity for the Group and the Company.

The financing plans, together with the operating activities as described above, is expected to allow the Group to meet its current obligations as and when they fall due.

In view of the continuing credit facilities being made available to the Group, for at least another twelve months from the reporting date, and together with the financing and capital plans, the Group believes that the continuing use of the going concern assumption in the preparation of the financial statements is appropriate.

Notwithstanding the above cash flow analysis, management acknowledges that there remain uncertainties over the ability of the Group to generate the necessary cash flows to meet its debt obligations. These uncertainties include:

- The eventual conclusion and timing of execution of several rig charter contracts currently subject to on-going negotiations with prospective customers; and

- The successful implementation of the financing and capital plans.

The above-mentioned conditions indicate the existence of a material uncertainty which may cast significant doubt on the Group's ability to continue as a going concern. However, as described above, management has a reasonable expectation that the Group has adequate resources to continue in operational existence for at least another twelve months from the reporting date.

If for any reason the Group is unable to continue as a going concern, it could have an impact on the Group's classification of assets and liabilities and the ability to realise assets at their recognised values and to extinguish liabilities in the normal course of business at the amounts stated in the financial statements. As the Group also plans to raise the necessary funding for the new build contracts, there is no adjustment considered for the carrying value of the assets under construction of $64,212,000 (2017: $62,634,000) as at 31 December 2018. Should the Group decide subsequently to discontinue the new build contracts, adjustment to the carrying values of these rigs may be required.

EXTRACT OF NOTE 16 TO THE AUDTIED FINANCIAL STATEMENTS OF THE COMPANY FOR THE FINANCIAL YEAR ENDED 31 DECEMBER 2018

Subsidiaries

		Company	
	2018	**2017**	**1 Jan 2017**
	$'000	**$'000**	**$'000**
Equity investments, at cost	225,659	225,659	225,659
Loans to subsidiaries	107,356	105,208	113,840
	333,015	330,867	339,499
Less: Impairment losses			
- Equity investments	(178,408)	(133,076)	(103,362)
- Loans to subsidiaries	(107,356)	(105,208)	(113,840)
	(285,764)	(238,284)	(217,202)
	47,251	92,583	122,297

The loans to subsidiaries are mainly denominated in United States dollars, are unsecured and interest-free.

Impairment

The change in impairment losses in respect of investments in subsidiaries during the year is as follows:

	Company	
	2018	**2017**
	$'000	**$'000**
At 1 January	133,076	103,362
Impairment losses recognised	45,332	29,714
At 31 December	178,408	133,076

The change in impairment losses in respect of loans to subsidiaries during the year is as follows:

	Company	
	2018	**2017**
	$'000	**$'000**
At 1 January	105,208	113,840
Translation differences	2,148	(8,632)
At 31 December	107,356	105,208

The impairment test on the investment in a subsidiary was triggered because of the poor financial performance of the subsidiary caused by the oil crisis. Management assessed the recoverable amount of the subsidiary to be $47,251,000 (2017: $92,583,000), which is arrived based on the recoverable amount of the net assets owned by the subsidiary. Accordingly, the Company recognised an impairment loss on investment in the subsidiary of $45,332,000 (2017: $29,714,000) during the financial year. These net assets reported in the books of the subsidiary comprise predominantly oil rigs whose recoverable amounts were determined using the value in use approach as described in Note 17.

Sources of estimation uncertainty

The Company maintains impairment allowance at a level considered adequate to provide for potential non-recoverability of the equity investments in subsidiaries. The level of allowance is evaluated on the basis of factors that affect the recoverability of the investments. These factors include, but are not limited to, the activities and financial position of the entities and market conditions. The Company reviews and identifies balances that are to be impaired on a regular basis. The amount and timing of recorded expenses for any period would differ if there are changes in judgement or estimates. An increase in impairment losses would decrease a Company's profit and decrease the carrying value of the investment in subsidiaries.

EXTRACT OF NOTE 17 TO THE AUDTIED FINANCIAL STATEMENTS OF THE COMPANY FOR THE FINANCIAL YEAR ENDED 31 DECEMBER 2018

Plant and equipment

Group	Plant and machinery $'000	Rigs and other related assets $'000	Renovation, furniture and fittings $'000	Office equipment $'000	Motor vehicles $'000	Total $'000
Cost						
At 1 January 2017	2,778	752,216	3,004	1,127	257	759,382
Additions	–	2,391	7	9	–	2,407
Disposals	–	(6,829)	–	–	–	(6,829)
Translation differences	(211)	(56,843)	(42)	(23)	(20)	(57,139)
At 31 December 2017	2,567	690,935	2,969	1,113	237	697,821
At 1 January 2018	2,567	690,935	2,969	1,113	237	697,821
Additions	–	905	4	15	–	924
Write-off	–	–	(4)	–	–	(4)
Disposals	–	(11,593)	–	–	(163)	(11,756)
Acquisition of subsidiary	–	32,291	–	–	–	32,291
Translation differences	52	9,586	11	6	4	9,659
At 31 December 2018	2,619	722,124	2,980	1,134	78	728,935
Accumulated depreciation and impairment losses						
At 1 January 2017	1,692	305,348	2,660	1,052	184	310,936
Depreciation charge for the year	333	26,894	232	41	31	27,531
Disposals	–	(2,374)	–	–	–	(2,374)
Translation differences	(141)	(24,097)	(42)	(23)	(15)	(24,318)
At 31 December 2017	1,884	305,771	2,850	1,070	200	311,775
At 1 January 2018	1,884	305,771	2,850	1,070	200	311,775
Depreciation charge for the year	323	29,290	100	30	15	29,758
Impairment	–	1,793	–	–	–	1,793
Write-off	–	–	(4)	–	–	(4)
Disposals	–	(6,747)	–	–	(140)	(6,887)
Translation differences	42	3,952	11	5	3	4,013
At 31 December 2018	2,249	334,059	2,957	1,105	78	340,448
Carrying amounts						
At 1 January 2017	1,086	446,868	344	75	73	448,446
At 31 December 2017	683	385,164	119	43	37	386,046
At 31 December 2018	370	388,065	23	29	–	388,487

Company	Renovation, furniture and fittings $'000	Office equipment $'000	Total $'000
Cost			
At 1 January 2017	2,420	637	3,057
Additions	–	2	2
At 31 December 2017	2,420	639	3,059
Additions	–	–	–
At 31 December 2018	2,420	639	3,059
Accumulated depreciation			
At 1 January 2017	2,088	636	2,724
Depreciation charge for the year	220	1	221
At 31 December 2017	2,308	637	2,945
Depreciation charge for the year	96	1	97
Disposals	(4)	–	(4)
At 31 December 2018	2,400	638	3,038
Carrying amounts			
At 1 January 2017	332	1	333
At 31 December 2017	112	2	114
At 31 December 2018	20	1	21

Assets under construction

In 2011 and 2014, the Group entered into two contracts for the construction and delivery of two jack-up drilling rigs, "Rig 1" and "Rig 2".

At 31 December 2018, rigs and other related assets include assets under construction with total costs capitalised of $64,212,000 (2017: $62,634,000), being $44,722,000 for Rig 1 and $19,490,000 for Rig 2 (see Note 29 for details of the capital commitments). No borrowing costs were capitalised for assets under construction in 2018 (2017: $Nil).

The depreciation charge of the Group is recognised in the following line items of the statement of profit or loss:

	2018 $'000	2017 $'000
Cost of sales	29,290	26,894
Other operating expenses	468	637
	29,758	27,531

The depreciation charge on rigs and other related assets was recorded in "Cost of sales". Depreciation charges on other categories of plant and equipment are presented as "Other operating expenses".

At 31 December 2018, the Group's rigs and other related assets with total carrying amount of $313,826,000 are pledged as securities to secure a bank overdraft facility and bank loans (see Note 21).

In the previous financial year, the Group's rigs and other related assets with total carrying amount of $10,992,000 were pledged as securities to secure a bank overdraft facility; and $300,703,000 were pledged as securities to secure bank loans (see Note 21).

Impairment

Rigs

Management evaluates, amongst other factors, the business outlook for the rig industry, including factors such as laws and regulations applicable to the assets, and changes in economic and market conditions. Indicators of possible impairment during the financial year include movements in oil prices, extended periods of idle time and/or inability to contract specific assets or groups of assets.

For the purposes of assessing impairment, each rig is treated as a separate CGU. Management assessed the recoverable amounts of the rigs based on their value in use calculated using the following key assumptions:

- Forecast charter rates consider actual charter rates close to the reporting date, the geopolitical and economic conditions present at the locations of the rigs and customer offers received. The forecast charter rates are generally expected to increase 3.0% (2017: 3.0%) per annum across all the Group's rigs. This is to take account of inflation and analysts forecast the inflation rates in the Group's operating countries to be in the range of 3.5% to 9.5% per annum. For all the jack-up rigs, the forecast charter rates are specifically expected to increase to approximately 40% and 60% of market rates prior to 2015, by 2021 and 2024 respectively which translate to an additional increase in charter rates of between 4.25% to 9.00% per annum over the useful life of the rigs.

- Utilisation rates of 85 – 90% (2017: 85 – 90%) were used in the cash flow computation, upon deployment of rigs, ranging from beginning of FY19 (2017: beginning of FY18) to twelve months (2017: twelve months) from the reporting date. Utilisation rates are defined here as the percentage of time the rig generates its daily charter rate;

- Pre-tax discount rates of 9.24 – 17.40% (2017: 9.89 – 17.15%) were estimated based on weighted average cost of capital for similar assets and adjusted for country risk and asset-specific risk premiums; and

- Projection periods from 3 to 25 years (2017: 4 to 26 years) that reflect the remaining economic useful lives of the rigs.

An impairment loss of $1,793,000 was recognised in the current year (2017: $Nil). At 31 December 2018, accumulated impairment losses were $66,177,000 (2017: $64,852,000). The remaining movement in the balance was due to the fluctuations in foreign exchange rates

Sources of estimation uncertainty

Depreciation of plant and equipment

Plant and equipment are depreciated on a straight-line basis over the estimated useful lives. The Group reviews the estimated useful lives of the assets regularly based on the factors that include asset utilisation, internal technical evaluation, technological changes, environmental and anticipated use of the assets in order to determine the amount of depreciation expense to be recorded during any reporting period. Changes in the expected level of use of the assets and the technological changes could impact the economic useful lives and the residual values of the assets, therefore future depreciation charges could be revised. Any changes in the economic useful lives could impact the depreciation charges and consequently affect the Group's results.

Impairment

In estimating the recoverable amounts of the rigs using value in use, management assumed certain prospective charter contracts and rates. The assumed charter rates, as well as the utilisation rate, timing and duration of deployment of the rigs, however, continue to be subject to estimation uncertainties that may result in material adjustments on the rigs' recoverable amounts in future periods.

The recoverable amounts of the rigs are sensitive to changes in the prospective charter rates, the utilisation rate and the timing and duration of deployment of the rigs. Assuming all other assumptions remain constant, (i) a 5% decrease in forecast charter rates would have increased the impairment loss by approximately $15,756,000; (ii) a 5% decrease in utilisation rates would have increased the impairment loss by approximately $7,961,000; and (iii) a delay in deployment of the rigs by three months would have increased the impairment loss by approximately $3,640,000.

EXTRACT OF NOTE 29 TO THE AUDTIED FINANCIAL STATEMENTS OF THE COMPANY FOR THE FINANCIAL YEAR ENDED 31 DECEMBER 2018

Commitments

Capital commitments

As at 31 December, the capital commitments of the Group and Company to acquire plant and equipment (refer to Note 17) are as follows:

	Group	
	2018	**2017**
	$'000	**$'000**
Rig 1	230,840	226,220
Rig 2	258,180	253,014
	489,020	479,234

	Group	
	2018	**2017**
	$'000	**$'000**
Within 1 year	489,020	253,014
After 1 year but within 5 years	–	226,220
	489,020	479,234

The Company had previously convened extraordinary general meetings on (i) 5 October 2011 in relation to the ratification of two contracts entered into between KS Drilling and COSCO Nantong Shipyard Co., Ltd. for the construction and delivery of two (2) jack-up drilling rigs. One of the jack-up drilling rigs has not been delivered ("Rig 1"); and (ii) on 21 October 2014 in relation to the ratification of a contract entered into between a wholly-owned subsidiary of KS Drilling and Shanghai Zhenhua Heavy Industry Co., Ltd., for the construction and delivery of one (1) new build jack-up drilling rig based on the Friede & Goldman JU-2000E design ("Rig 2"), with an option granted to KS Drilling for the construction and delivery of a second rig of the same design.

The delivery dates pursuant to the contracts were originally 7 February 2014 for Rig 1 and 23 September 2016 for Rig 2. Several revisions were negotiated subsequently and subject to the terms and conditions of the contracts, the contractual delivery date of Rig 2 is 31 December 2018 and Rig 1 is due for delivery on 31 December 2019. The Group continues to engage in discussions with the shipyards, which are expected to be concluded during the year 2019.