
KS ENERGY COMMISSIONS ZHENHUA HEAVY INDUSTRY CO., LTD TO CONSTRUCT UP TO TWO DRILLING RIGS

1. Construction of the New Rigs

KS Energy Limited (the “**Company**”, and together with its subsidiaries, the “**Group**”) wishes to announce that a subsidiary of KS Drilling Pte Ltd (“**KS Drilling**”), KS Rig Invest Five Ltd., has entered into a contract effective 23 June 2014 (the “**Effective Date**”) with Shanghai Zhenhua Heavy Industry Co., Ltd. (“**ZPMC**”) for the construction and delivery of one (1) new build jack-up drilling rig based on the Friede & Goldman JU-2000E design, with an option granted to KS Drilling for the construction and delivery of a second rig of the same design (each a “**New Rig**”, and the contract with ZPMC, the “**New Build Contract**”). The first New Rig (“**Rig No. 1**”) is expected to be delivered twenty-seven (27) months from the Effective Date, while KS Drilling may exercise the option for the second New Rig (“**Rig No.2**”) at any time during the period of six (6) months after the Effective Date. The total consideration for each New Rig is approximately US\$199.2 million, exclusive of additional costs to be paid for project management, drilling and handling tools, spares and capitalized interest.

The abovementioned transactions, which are in the ordinary course of business of KS Drilling Pte Ltd, will be funded by a combination of internal resources and borrowings.

2. Requirements under Chapter 10 of the Listing Manual (the “**Listing Manual**”) of Singapore Exchange Securities Trading Limited (“**SGX-ST**”)

Under Rule 1006 of the Listing Manual, a transaction (as defined in the Listing Manual) may be categorised as (i) non-discloseable transactions, (ii) discloseable transactions, (iii) major transactions or (iv) very substantial acquisitions or reverse takeovers, depending on the size of the relative figures computed on the bases set out thereunder.

Rule 1015(1) of the Listing Manual states that where an acquisition of assets (whether or not the acquisition is deemed in the issuer’s ordinary course of business) is one where any of the relative figures computed on the bases set out in Rule 1006 is 100% or more, or is one which will result in a change in control of the issuer, the transaction is classified as a very substantial acquisition or reverse takeover.

The relative figures under Rule 1006(c) of the Listing Manual of the SGX-ST as at 23 June 2014 are:-

Rule	Basis	Relative Bases (%)
1006(c)	The aggregate value of the consideration given or received, compared with Company's market capitalisation ¹ based on the total number of issued shares, excluding treasury shares	Rig No. 1: 103.46 Rig No. 2: 103.46 Aggregate: 206.92

The relative figures under Rule 1006(a), (b)² and (d)³ of the Listing Manual are not applicable to the abovementioned transactions.

As the relative figure as computed on the bases set out in Rule 1006(c) of the Listing Manual exceeds 100% (if the New Rigs are aggregated), the New Rigs will be considered a very substantial acquisition or reverse takeover under Chapter 10 of the Listing Manual.

3. The Application for Waiver

The construction of the New Rigs is in the ordinary course of the Group's business as, *inter alia*, an offshore oil and gas drilling company. However, as the relative figure computed under Rule 1006(c) of the Listing Manual for the New Build Contract is more than 100%, the Company consulted with the SGX-ST on the applicability of Chapter 10 of the SGX-ST Listing Manual. In a letter dated 23 June 2014, the SGX-ST informed the Company that it had no objection to the waiver of Rules 1015(1)(b), 1015(2), 1015(3), 1015(4); and 1015(5) (the "**Waiver**") subject to the following:

- (a) the Company convening an extraordinary general meeting to seek shareholders' ratification for the New Build Contract ("**EGM**") within 3 months from the Effective Date;
- (b) the Company procuring, before the Effective Date, written irrevocable undertakings from the shareholders holding more than 50% of the Company's share capital, with such shareholders undertaking to vote in favour of the New Build Contract;
- (c) the Company announcing the waiver, the reasons for seeking the waiver as required under Rule 107; and

¹ Based on the 512,932,215 shares (excluding 11,308,000 treasury shares) then in issue multiplied by S\$0.4692, being the weighted average price of such shares transacted on the date of the New Build Contract and FX rate of S\$1.25 to US\$1.00.

² As the New Rigs are to be constructed and no contract has been entered into with regards to their deployment and use, there is no profit attributable to the New Rigs as at this juncture.

³ No securities in the Company are proposed to be issued as consideration under the New Build Contract.

- (d) the Company submitting a written confirmation to the SGX-ST that the Waiver does not contravene any laws and regulations governing the Company and its articles of association.

4. Reasons for seeking the Waiver

4.1. Ordinary course of business

The drilling services business that the Group is involved in is a highly capital intensive business, which involves heavy capital expenditure for the acquisition and construction of equipment. It is not unusual for players in the industry to enter into contracts for the construction or acquisition of rigs and drilling equipment at a high cost (as compared to their market capitalisation or net asset values) in the ordinary course of business.

4.2. Organic expansion of the Group's core business

One of the Group's core businesses is the provision of drilling services, which involves the ownership and/or operation of a fleet of drilling and accommodation jack-up rigs, and land rigs for some of the world's largest oil and gas companies. The construction of the new jack-up rigs is an expansion of the drilling services business of the Group and represents an opportunity to expand the core business of the Group organically.

4.3. Staged payment structure

The payment terms under the New Build Contract will be structured to provide for payment to be made in stages, based on certain agreed milestones.

This will allow the Group to manage its gearing ratios and cash-flow in order to maintain its financial health in order to minimise the financial impact.

4.4. No change of control

The consideration payable in respect of the New Rigs will be satisfied in cash, accordingly there will be no change of control of the Company as a result of the New Rigs.

5. Rationale

The Company considers the commercial terms of the transactions to be attractive in the current market conditions. The acquisition of the New Rigs will allow the Company to expand its drilling services business, one of the Group's core businesses.

6. Financial Effects

Assuming that the New Build Contract was signed on 1st January 2013, the New Build Contract is not expected to have any material impact on the earnings per share and net tangible assets per share of the Company for the most recently completed financial year ended 31 December 2013.

Assuming that New Build Contract was signed on 1st January 2013, the effect of the New Build Contract on the Group's gearing ratio for FY2013 would have been:

FY2013	Before the New Build Contract	After the New Build Contract	After exercising the option for Rig No.2
Gearing Ratio	0.52	0.57	0.62

7. Irrevocable undertakings by shareholders

In compliance with the SGX-ST's condition for the Waiver, Pacific One Energy Limited, which is interested in shares representing 58.21% of the share capital of the Company, has undertaken to the Company (i) to vote in favour of the shareholders' resolution to ratify the New Build Contract; and (ii) not to decrease its current shareholdings until after the EGM.

8. Miscellaneous

None of the directors or substantial shareholders of the Company has any interest, directly or indirectly, in the above transaction save through their respective shareholding interests in the Company.

Further announcements on this matter will be made in due course to provide shareholders with an update on the New Rigs as and when appropriate.

BY ORDER OF THE BOARD
KS ENERGY LIMITED

Busarakham Kohsikaporn
Company Secretary
23 June 2014

For more information on KS Energy Limited, please visit our website at www.ksenery.com.sg.