



Securities Investors Association (Singapore)

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UEN No: S99SS0111B

GST Reg No: M90367530Y

Issuer: KS Energy Limited

Security: KS Energy Limited

Meeting details:

Date: 26 April 2019

Time: 10.00 a.m.

Venue: 19 Jurong Port Road, Singapore 619093

Company Description

KS Energy Limited is an investment holding company. The Company is engaged in the provision of management services. The activities of the Company are the provision of drilling and rig management services, specialized engineering and fabrication services, and the distribution of parts and components. The Company operates through three segments: Drilling, which includes provision of drilling and rig management services to the oil and gas industry; Engineering, which includes engineering design and project management services, as well as other oil and gas related services, and Distribution, which includes the sale and distribution of steel pipes and plates, hydraulic products and valves, wire ropes and slings, oilfield equipment and consumables, to the oil and gas, offshore and marine, petrochemical and other related industries. Its subsidiaries include KS Fabrication and Engineering Pte. Ltd., Globaltech Systems Engineering Pte. Ltd. and PT Globaltech Systems Engineering.

(Source: http://www.sgx.com/wps/portal/sgxweb/home/company_disclosure/stockfacts?code=578)

Q1. As noted in the chairman’s message, revenue recognised in FY2018 of \$51.4 million was “a significant increase” compared to the revenue of \$47.1 million a year ago.

Despite the increase in revenue, net loss attributable to owners of the company amounted to \$(42.18) million in FY2018, up from \$(18.3) million. In the last 5 years, the cumulative loss attributable to owners of the company added up to \$(367) million.

FINANCIAL HIGHLIGHTS

| | 2018 | 2017 | 2016 | 2015 | 2014 Restated* |
|---|----------|----------|-----------|-----------|-------------------|
| FOR THE YEAR (\$'000) | | | | | |
| Revenue | 51,449 | 47,144 | 35,091 | 91,951 | 227,330 |
| Gross (Loss)/Profit | (18,116) | (19,521) | (29,209) | (39,714) | 58,353 |
| Gross Profit excluding rig depreciation | 11,174 | 7,373 | 1,978 | 20,161 | 113,331 |
| EBITDA (defined below) | (5,531) | 27,812 | (26,343) | (12,734) | 128,615 |
| Earning Before Interest and Tax (“EBIT”) | (38,541) | (6,412) | (108,768) | (241,242) | 68,090 |
| (Loss)/Profit after Tax | (53,939) | (24,559) | (126,318) | (260,432) | 46,411 |
| (Loss)/Profit attributable to owners of the Company | (42,180) | (18,295) | (107,487) | (229,642) | 30,128 |
| Operating Cash (Outflow)/Inflow | (576) | (9,634) | (13,399) | 19,954 | 53,864 |
| Capital Expenditure | 924 | 2,407 | 1,319 | 9,166 | 288,724 |

(Source: Company annual report)

Net operating cash outflow in the past three years amount to \$(23.6) million.

In fact, the independent auditor has issued a disclaimer of opinion as it has not been able to obtain sufficient appropriate audit evidence to provide a basis for an audit opinion on the financial statements.

The basis for disclaimer of opinion included:

- Capital commitments (of up to \$489,020,000)
- Plant and equipment (carrying value and impairment)
- Equity investments in subsidiaries (Company level)
- Going concern

The group’s and the company’s current liabilities exceed current assets by \$18,334,000 and \$2,508,000 respectively. 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.

The company has stated that 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”*.

- (i) Would the board help shareholders understand what guidance it has given to management to resolve the cash flow issues?**
- (ii) Is it prudent of the board, and of the company, to say that it is “expected to have sufficient resources to meet the capital commitments of the group” subject to obtaining the required financing?**
- (iii) What reasonable grounds does the board have in “believ[ing] that the Company will be able to pay its debts as and when they fall due”?**
- (iv) Does the board have a back-up plan should the group not be able to obtain the required financing?**

Q2. Would the board/management provide shareholders with better clarity on the following operational and financial matters? Specifically:

- (i) Drilling business: What is the utilisation rate of its on-shore (6) and off-shore (3) drilling rigs? What is the group’s competitive advantage to set itself apart from the competitors in an oversupplied marketplace?**
- (ii) KS Java Star: Is the group re-activating KS Java Star without a charter in place? What would be the costs to reactivate the rig from the lay-up? Would the reactivating of KS Java Star give the group better leverage in the negotiation?**
- (iii) Cash flow: Would management share its cash flow projections to help shareholders understand the liquidity risks faced by the group?**
- (iv) For the benefit of new and long standing shareholders, please clearly articulate the business model and help shareholders understand the key value drivers.**

Q3. On 1 April 2019, the company announced that there are material differences between the unaudited results (first announced by the company on 27 February 2019) and the audited financial statements for FY2018 after the finalisation of audit.

The audit adjustments and reclassifications included:

- Reclassification of impairment and write-back from “Other operating expenses” to “Investment in joint venture”
- Reclassification of “Contract assets” from “Trade receivable” & “Other Assets”
- Reclassification of “Contract liabilities” from “Trade and other payable”

The variances were as large as \$12.4 million.

In fact, the company announced discrepancies between its audited and unaudited results for the financial year ended 31 December 2017 as well.

Management is responsible for the preparation of financial statements that give a true and fair view in accordance with the provisions of the Singapore Companies Act, Chapter 50 (the “Act”) and Singapore Financial Reporting Standards (International) (SFRS (I)), and for devising and maintaining a system of internal accounting controls sufficient to provide a reasonable assurance that assets are safeguarded against loss from unauthorised use or disposition; and transactions are properly authorised and that they are recorded as necessary to permit the preparation of true and fair financial statements and to maintain accountability of assets.

- (i) How can shareholders get assurance from management that the financial statements are prepared in accordance with the relevant Act and financial reporting standards?**
- (ii) Has the audit and risk management committee (ARMC) evaluated if the internal financial reporting/finance team is sufficiently resourced with experienced and qualified staff to ensure the integrity of the financial statements?**
- (iii) Would the members of the ARMC help shareholders understand their personal recent and relevant accounting or related financial management expertise or experience that would make them appropriately qualified to discharge their responsibilities?**
- (iv) Can the ARMC update shareholders on the improvement made/to be made to the group’s financial reporting systems and processes?**