KS ENERGY LIMITED

An Integrated Energy Services Hub

AN INTEGRATED GROUP FOR OIL & GAS SERVICES

ANNUAL REPORT 2012

A Globally Accredited and Integrated Oil & Gas Services Provider

KS Energy Limited ("KS Energy") is a one-stop energy services provider to the global oil and gas, marine and petrochemical industries. The shares of KS Energy are traded on the main board of the Singapore Exchange.

The core activities of KS Energy are in distribution of parts and components, capital equipment charter; the provision of drilling and rig management services; and specialised engineering and fabrication.

Its distribution arm, KS Distribution represents more than 300 globally-accredited brands and distributes more than 60,000 line items. Its subsidiary KS Drilling, is an internationally accredited drilling and rig management company, providing capital equipment, rig management and drilling services directly to major oil companies for their onshore and offshore production needs. Finally, KS Engineering and Fabrication provides customised engineering and fabrication services to a wide range of companies in the oil and gas industry with customers spanning from the Americas to Asia.

To enlarge the range of services that the Group provides, a new subsidiary called KS Resources has been added. KS Resources is project centric and caters to power plants, geothermal and various energy-related projects.

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Chairman's Message to Shareholders

Dear Shareholders

I am pleased to report that the Group closed FY2012 with significantly improved performance. Revenue improved by 41.7% from $492.7 million to $698.1 million and we reported a net profit after tax amounting to $5.1 million compared to the net loss of $87.7 million last year. I would like to thank all our management and staff for their hard work and also to you, our shareholders for your patience over the years.

FY2012 IN RETROSPECT

Two years ago, I mentioned that we are integrating all our companies so that we can create a strong platform to serve the oil and gas industry. We are now ready to meet the global challenges and opportunities as the oil and gas industry continues to grow in Asia, this region will be the key contributor to this growth.

In South East Asia, Indonesia is a major consumer of energy. With a daily consumption of about 1.5 million and domestic production of 0.8 million barrels, the country has to import 0.7 million barrels daily to satisfy its energy needs. To reduce its reliance on oil imports, Indonesia aims to increase its production to 1.0 million barrel per day. This initiative translates into more drilling activities in the country. Recently, through our joint operations with Indonesia's Pertamina, we have started work in the West Madura Offshore Java Sea and we will continue to grow our footprints in the country as we make inroads into its rapidly growing oil and gas sector.

Geographically, we are also expanding our footprints into Australia. Two offices were recently opened in Perth and Brisbane to tap into the opportunities there. With more than US$100 billion worth of projects in Australia, there are tremendous growth opportunities for both our Distribution and Drilling subsidiaries.

Our FY2012 results demonstrate that our integration and consolidation efforts over the last few years are coming to fruition. Our Distribution subsidiary performed extremely well this year. Having shed their "shop-keeper" mentality, they are fast transforming themselves into a one-stop energy equipment supplier and services provider, focusing on adding value to customers by providing them with innovative and efficient solutions. To tap into opportunities in the region, it now has a projects team concentrating on winning international projects. To augment these efforts, offices and warehouses have been established in Perth, Brisbane, Malaysia and Vietnam.

Our Drilling subsidiary also had an extremely busy year. KS Drilling head office was relocated from Dubai

Mr Wiluan and visitors on board the jackup rig, KS Java Star to Singapore and the former is now an administrative centre. The two new jackup rigs that are being built are on schedule and when completed, we will have a total of 15 rigs.

In retrospect, with the significant strengthening of the market for new builds, it was a timely decision to commission these two new jackup rigs. With these additional rigs, we will be able to participate in more contracts in the growing oil and gas market.

We have made good progress in Indonesia, drilling at the Cepu Bojonegoro and West Madura Oil Blocks together with Pertamina. Another development this year is our cooperation with PT Citra Tubindo Engineering in Batam to design and fabricate two new state-of-the-art skidding land rigs. These are the first rigs ever to be built in Indonesia and they will are targeted for deployment in the Exxon Mobil Cepu field in 2013.

To tap into opportunities from Asia's rapidly changing energy landscape, two new subsidiaries were established. They are:

KS Engineering and Fabrication, undertake engineering design work and fabrication for drilling rigs construction, offshore platforms and LNG modules.

KS Resources, will be looking into power project especially geothermal, coal-fired plants and enhanced oil recovery.

PROSPECTS AHEAD

Going forward, I expect that the Asia Pacific region will continue to be an important growth platform for our businesses. Having firmed our foundation and integrated our business, we have honed our competitive edge and are in a better position to participate in new opportunities.

Our Distribution subsidiary will be an important contributor to the Group's performance as it continues to grow and deliver better performance.

The outlook for the offshore drilling sector is encouraging and this is positive for our Drilling subsidiary. We expect more assets to be deployed over the next twelve months, particularly in Indonesia with the country's plan to raise its oil production. Following the initial start-up phase, our newly acquired assets starting operations in Indonesia in early 2013 are expected to contribute positively. The Group will continue to pursue selective new investment opportunities by our Drilling subsidiary to meet the growing demands from the oil and gas industry.

IN APPRECIATION

On behalf of all us at KS Energy, I would like to convey our appreciation to two of our directors, Mr Abdulla Saleh and Mr Koh Soo Keong who are stepping down from our board. Your guidance and advice over the years have been valuable and we wish you all the best in your future endeavors.

I would like to thank all our customers, shareholders, principals, bankers and business associates for their trust and support. I look forward to your continuing assistance as we work towards developing our company into one of Asia's indigenous oil and gas services provider.

Yours Sincerely,

Kris Taenar Wiluan
Executive Chairman and Chief Executive Officer
28 March 2013

Mr Wiluan welcoming Minister S. Iswaran to the KS booth at the OSEA 2012 Exhibition

Mr Wiluan delivering his Opening Address at the KS Group Annual Dinner on 22 Feb 2013

Operations Review

The core activities of KS Energy and its subsidiaries (the "Group") are in distribution of parts and components; capital equipment charter; the provision of drilling and rig management services; and specialised engineering and fabrication services. KS Energy Limited (the "Company") is an investment holding company whereas the revenue of the Group is principally generated by KS Distribution and KS Drilling which account for 66% and 30% of the Group's revenue in 2012 respectively. The balance of 4% comes from Corporate and Engineering segment, which also includes revenue from non-core assets.

KS Distribution Pte Ltd

KS Distribution Pte Ltd ("KSD") delivered a better performance in 2012. Revenue had increased by 21% from \$380.7m in 2011 to \$462.4m. Correspondingly, the bottom line improved from a loss of \$12.6m to a profit after tax of \$15.4m in the current financial year.

The increase in revenue came from project sales as well as an improvement in sales to the oil and gas sector of our industry. However the persistent weakness in the marine sector continues to affect our business.

Business in the domestic market did well in several fronts. We managed to secure a number of projects and deliveries were made during the year.

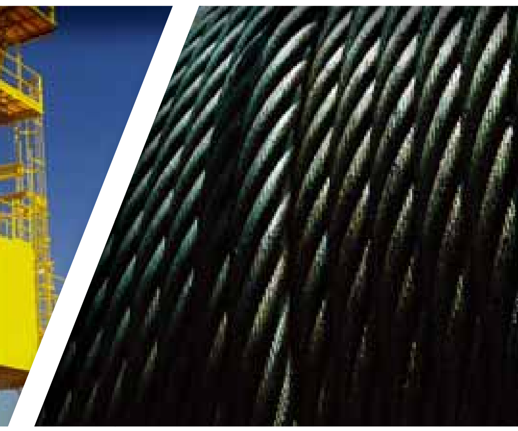
After the restructuring of our business team into domestic and international team, revenue from our overseas markets performed better, especially China, Indonesia, and Thailand. This reflects the buoyant business sentiments experienced by these economies. Our international business now accounts for 63% of our revenue as compared to 52% in the previous financial year.

There were a few developments in our international operations. We have successfully consolidated our China operation based in Shanghai with subsidiaries in other parts of China where previously it was under a number of holding companies in Singapore.

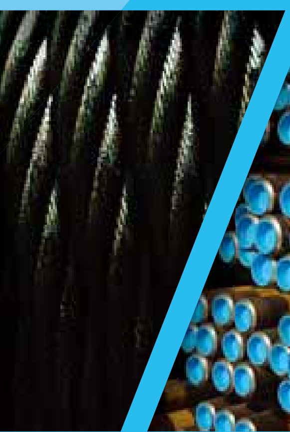
To expand our foothold in Australia we incorporated a fully owned subsidiary in Perth and a sales office in Brisbane to cater for the vast oil and gas opportunities there. Furthermore we have stepped up our presence in Vietnam and Malaysia with the setting up of warehousing facilities in Vung Tau and Johor respectively to improve service to customers.

We are now focused in increasing our project portfolio by establishing a project team to coordinate and execute projects both domestically and internationally.

To alleviate the high demand for warehousing space, we are embarking on a plan to store some of our products in Johor and Batam. This will enable us to take advantage of the cheaper land cost and other incentives. At the same time we are also looking into improving the utilization of our existing warehousing facilities in Singapore through better inventory management.



Our track record and experience in both the Drilling and Distribution businesses over the years have given us strong credentials to secure more projects in the region's growing oil and gas industry.



Operations Review

KS Drilling Pte Ltd

Further to its establishment in 2011, 2012 was the year KS Drilling Pte Ltd ("KS Drilling") extended its presence in the regional and international drilling services industry.

One highlight of 2012 was the establishment of two joint operations with Pertamina, the national oil and gas company of Indonesia. Under the joint operations agreements, KS Drilling and Pertamina will jointly manage and operate both land and offshore drilling rigs to participate in the programme to increase oil and gas production in Indonesia.

The first joint operation is for drilling operations offshore West Madura for Pertamina. For this venture, KS Drilling acquired, refurbished and upgraded a drilling jackup rig, the KS Java Star, and chartered the rig to the joint operation to operate for Pertamina. The rig was delivered to the joint operation in December 2012 and operations commenced in early 2013.

The other joint operation is for drilling services in Cepu for ExxonMobil. KS Drilling conceptualised and developed the design of the two fast-moving land rigs that were required under the drilling contract, with each partner contributing one rig. The rigs were built in Indonesia by PT Citra Tubindo Engineering with engineering input from KS Drilling. Drilling operations are due to start in early 2013.

Construction of the two ultra-premium drilling jackup rigs, the KS Orient Star 1 and the KS Orient Star 2, is progressing well. These rigs are capable of operating in water depths of up to 400 feet with a rated drilling depth of up to 35,000 feet, and can accommodate more than 150 persons on board. When completed, these new rigs will become the cornerstone of a younger and stronger fleet that is better equipped to meet clients' demands for higher specification assets working in harsh environments, in line with market trends. KS Drilling is currently starting negotiations to contract these rigs from early 2014.

The existing assets of KS Drilling continue to perform well. In particular, the KS MedStar-1, which is currently under contract in the Mediterranean Sea for Petrobel, has had no lost revenue for the entire year arising from unscheduled downtime.

Contracts for the KS Discoverer 1 and KS Discoverer 3 land rigs were extended in the course of the year, while the KS Discoverer 4 land rig was awarded a new drilling contract. Commencement of the KS Discoverer 4 contract is targeted in early 2013 after upgrades for the rig to handle high-pressure high-temperature drilling are complete.

Going forward, KS Drilling will continue to review and rationalise the fleet and make investments to meet the changing and growing demands of the oil and gas industry.

Financial Review

YEAR ENDED 31 DECEMBER 2012

	FY2012	FY2011	Change
Revenue	**$'000**	**$'000**	
Distribution subsidiary	462,371	380,720	21.4%
Drilling subsidiary	208,153	120,337	73.0%
Corporate and Engineering subsidiaries	30,823	26,093	18.1%
Less: Inter-segment revenue	(3,218)	(34,412)	(90.6%)
	698,129	**492,738**	**41.7%**
Gross profit after direct depreciation	129,855	109,319	18.8%

REVENUE

Revenue from the Distribution subsidiary grew 21.4% in FY2012 to $462.4 million. Higher revenue was generated across the Distribution Group including SSH Corporation and Aqua-Terra. Revenue contribution from the Distribution subsidiary makes up about 66.2% of the Group's total revenue.

Revenue from the Drilling subsidiary grew 73% in FY2012 compared to FY2011. The higher revenue was mainly due to the sale of the jack-up rig named "KS Java Star" to a subsidiary of our jointly controlled entity, PT KS Drilling Indonesia. Revenue contribution from the Drilling subsidiary makes up about 29.8% of the Group's total revenue.

Revenue from our Corporate and Engineering subsidiaries grew 18.1% in FY2012 compared to FY2011. Revenue contribution from our Corporate and Engineering subsidiaries makes up about 4.4% of the Group's total revenue. Higher revenue was generated as the Atlantic Rotterdam accommodation rig was on hire throughout FY2012.

Gross Profit

The Group's gross profit after direct depreciation increased 18.8% to $129.9 million due to the higher revenue. The Group's gross profit margin decreased from 22.2% to 18.6% mainly due to the sale of the jack-up rig named "KS Java Star" to a subsidiary of our jointly controlled entity, PT KS Drilling Indonesia and a higher proportion of project sales in the Distribution subsidiary.

Other Income

Other income increased from $4.4 million in FY2011 to $15.2 million this year, mainly due to the fair value gain recognised upon the lapse of an option. The rest of the other income comprise mainly rental income, management fees and other income that are not directly related to revenue generated from our day-to-day operations.

Operating Expenses and Direct Depreciation

Distribution costs decreased by 7.2% from $39.4 million in FY2011 to $36.5 million in FY2012 mainly due to the reclassification of $1.6 million of expenses previously classified as distribution costs in FY2011 and now classified as administrative expenses in FY2012.

Administrative expenses decreased by 2.8% from $42.4 million in FY2011 to $41.2 million in FY2012 mainly due to lower staff costs.

Financial Review

Other Operating expenses decreased by $43.7 million or 55.4% from $78.9 million in FY2011 to $35.2 million in FY2012 mainly due to the following items:

	FY2012 $'000	FY2011 $'000
Depreciation of property, plant and equipment classified as Other Operating Expenses	(9,585)	(17,425)
Impairment loss on property, plant and equipment	–	(8,507)
Expenses incurred on a non-core capital equipment asset	–	(9,776)
Impairment loss on intangible assets	–	(4,855)
Impairment loss on receivables	(8,796)	(2,179)
Write-back of/(allowance for) inventory obsolescence	285	(15,470)
Foreign exchange loss	(1,423)	(5,174)
	(19,519)	(63,386)

When capital equipment is off-hire, depreciation charges are allocated to Other Operating Expenses whereas when on-hire, depreciation charges are allocated to Direct Depreciation. Total depreciation charges allocated to Other Operating Expenses and Direct Depreciation amounted to $39.6 million in FY2012 compared to $34.5 million in FY2011, an increase of 14.9%.

Finance Income and Costs

Finance income decreased $0.1 million or 15.3% from $0.8 million in FY2011 to $0.7 million in FY2012.

Finance costs decreased $11.2 million or 37.0% from $30.3 million in FY2011 to $19.1 million this year. The decrease is mainly due to a reduction in the amortisation of discount on the convertible bonds from $13.3 million in FY2011 to $5.9 million in FY2012 and a reduction in the fair value loss on financial derivatives from $8.6 million in FY2011 to $Nil in FY2012.

Share of results of associates and jointly-controlled entities

The Group's share of loss from jointly-controlled entities decreased from $5.1 million last year to $0.5 million this year.

STATEMENT OF FINANCIAL POSITION REVIEW

The Group's total non-current assets decreased 12.9% from $534.4 million as at 31 December 2011 to $465.4 million as at 31 December 2012. The decrease was principally attributable to the repayment of loans by a jointly controlled entity and depreciation charges during the year.

Total current assets came in higher at $471.3 million as at the end of FY2012, up 22.5% from the end of FY2011 mainly due to higher trade and other receivables and inventory levels. This was principally attributable to the higher revenue across the Distribution subsidiary.

Total liabilities increased from $481.1 million as at the end of FY2011 to $517.5 million as at the end of FY2012. This was principally attributable to the increase in borrowings from $334.1 million in FY2011 to $373.3 million in FY2012.

Although the convertible bonds mature in March 2015, they are classified as current liabilities as the bondholders have the option to require the Company to repay the convertible bonds in March 2013.

On 7 March 2013, the Company announced that Bondholders have tendered notices for the exercise of the Put Option in respect of Convertible Bonds in the aggregate principal amount of $75,000,000. Accordingly, the Company will require a total amount of $76,125,000 (being the principal amount together with accrued and unpaid interest) for the redemption of such Convertible Bonds on 26 March 2013.

The Group's net gearing (defined as net borrowings to total equity) stood at 0.75 times as at 31 December 2012 compared to 0.63 times as at 31 December 2011.

Equity attributable to owners of the Company decreased from $285.9 million as at 31 December 2011 to $269.2 million as at 31 December 2012, mainly due to movements in foreign currency translation reserve.

STATEMENT OF CASH FLOWS REVIEW

Cash Flow from Operating Activities

Operating activities generated a net cash inflow of $25.6 million for the year ended 31 December 2012.

Cash Flow from Investing Activities

Net cash outflow from investing activities amounted to $37.9 million. This is attributable mainly to purchases of plant and equipment and advances to jointly controlled entities, partially offset by repayment of loans from jointly controlled entities.

Cash Flow from Financing Activities

There was a net cash inflow from financing activities of $11.6 million due mainly to new loan and trade financing facilities obtained during the year.

As at 31 December 2012, cash and cash equivalents amounted to $60.7 million (31 December 2011: $58.6 million), of which unpledged cash and cash equivalents amounted to $46.9 million (31 December 2011: $49.4 million).

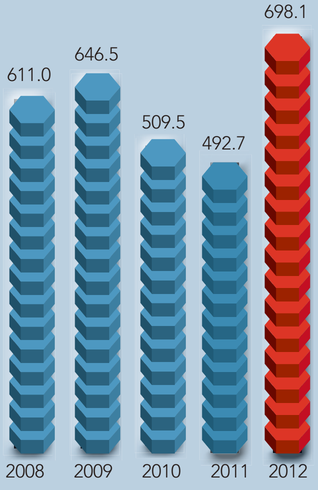
Financial Highlights

	2012 $'000	2011 $'000	2010 $'000	2009* $'000	2008* $'000
Revenue	698,129	492,738	509,493	646,517	611,022
Profit/(Loss) before Tax	13,118	(81,543)	(87,805)	57,398	65,542
Net Profit/(Loss) after Tax	5,105	(87,659)	(95,812)	47,036	60,333
Net Profit/(Loss) attributable to Owners of the Company	1,289	(78,757)	(98,407)	40,041	51,920
Key Statement of Financial Position Indicators					
Shareholders' Fund	269,213	285,948	357,892	405,784	365,493
Total Equity	419,223	438,159	464,746	543,738	502,629
Total Assets	936,709	919,227	905,132	1,022,785	1,103,383
Total Liabilities	517,486	481,068	440,386	479,047	600,754
Performance Indicators					
Earnings/(Loss) Per Share (cents/share)	0.31	(19.19)	(26.22)	11.89	19.59
Net Asset Value Per Share (cents/share)	65.6	69.7	87.2	120.5	108.6
Financial Ratios					
ROE (%)	0.5	(24.5)	(25.8)	10.4	21.4
ROA (%)	0.1	(8.6)	(10.9)	3.9	4.7
Current ratio (times)	1.25	1.68	1.76	1.22	1.46
Net Gearing (times)**	0.75	0.63	0.58	0.48	0.65

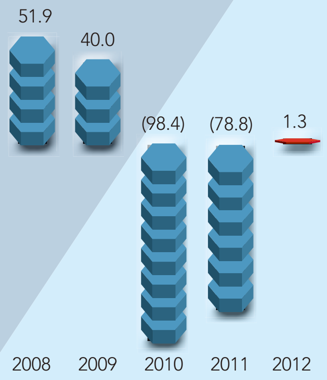
* The comparative figures for 2009 (income statement and statement of financial position) and 2008 (statement of financial position only) have been restated to reflect the changes in accounting policy relating to new business combinations under the revised accounting standards in 2010.

** Net gearing is defined as net borrowings over total equity.

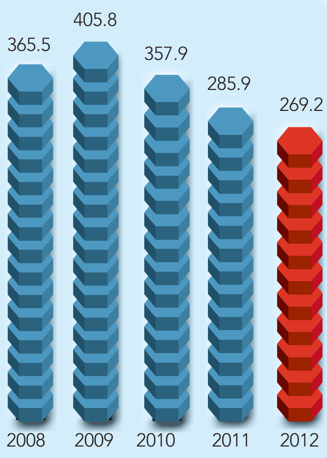
Revenue Trend
($ Million)



Net Profit/(Loss) attributable to Owners of the Company
($ Million)



Shareholders' Fund
($ Million)



Corporate Data

BOARD OF DIRECTORS

KRIS TAENAR WILUAN
Executive Chairman and Chief Executive Officer

KOH SOO KEONG
Non-Executive and Non-Independent Director

ABDULLA MOHAMMED SALEH
Non-Executive and Non-Independent Director

LIM HO SENG
Lead Independent Director

BILLY LEE BENG CHENG
Independent Director

WONG MENG YENG
Independent Director

NELSON McCALLUM GIBB
Alternate Director to Mr Abdulla Mohammed Saleh

AUDIT COMMITTEE

LIM HO SENG *Chairman*
WONG MENG YENG
BILLY LEE BENG CHENG

NOMINATING COMMITTEE

WONG MENG YENG *Chairman*
BILLY LEE BENG CHENG
KRIS TAENAR WILUAN

REMUNERATION COMMITTEE

BILLY LEE BENG CHENG *Chairman*
WONG MENG YENG
LIM HO SENG

COMPANY SECRETARIES

BUSARAKHAM KOHSIKAPORN
LYNN WAN TIEW LENG

REGISTERED OFFICE

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Singapore 619093
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Fax: + 65 6577 4618
Website: www.ksenergy.com.sg
Company Registration No: 198300104G

SHARE REGISTRAR

Tricor Barbinder Share Registration Services
(a division of Tricor Singapore Pte Ltd)
80 Robinson Road #02-00
Singapore 068898

AUDITORS

KPMG LLP
Certified Public Accountants
16 Raffles Quay
#22-00 Hong Leong Building
Singapore 048581
Partner-in-charge: LUCAS TRAN
Year of appointment: 2010

PRINCIPAL BANKERS

Australia and New Zealand Banking Group Limited
Bank Mandiri
DBS Bank Ltd
Oversea-Chinese Banking Corporation Limited
Standard Chartered Bank
The Hong Kong and Shanghai Banking Corporation Limited
United Overseas Bank Limited

Board of Directors

Mr Wiluan is the Executive Chairman and Chief Executive Officer of KS Energy Limited. He is also the founder of the Citramas Group, a diversified group of businesses that he founded in 1980. The Citramas Group's business activities include oilfield equipment manufacturing, shipping and logistics, drilling services, infrastructure development comprising port and ferry terminals, hotels and an animation and film production company as well as other interests in the hospitality and leisure industry. Under the umbrella of the Citramas Group is the Indonesian public-listed PT Citra Tubindo Tbk – a manufacturer of tubular products for the oil and gas industry whose shares are quoted on the Jakarta and Surabaya Stock Exchanges, and 35 other subsidiaries with activities spanning different countries in the ASEAN region.

KRIS TAENAR WILUAN

Executive Chairman and Chief Executive Officer

The Citramas Group provides employment to more than 3,000 employees across the region. In addition to his role as the President of the Citramas Group, Mr Wiluan is also the President Director of PT Citra Tubindo Tbk, and the Chairman of PT Citra Bonang, a Jakarta-based manufacturer and distributor of industrial chemicals and food products. PT Citra Bonang Group of companies has more than 50 branches throughout Indonesia and employs a workforce of more than 10,000 people.

A graduate from London University with a BSc Honours Degree in Mathematics and Computer Science, Mr Wiluan was awarded "CEO of the Year" by Bisnis Indonesia in 2007 and in the following year, he was named "The Best CEO 2008" by SWA magazine. In 2009, he was awarded "Entrepreneur of the Year" by Ernst & Young Indonesia, representing Indonesia in the EY Global Entrepreneur Hall of Fame.

Mr Koh was appointed as a Director of the Company on 1 March 2008, and was re-designated as an Executive Director from 1 May 2009 to 6 July 2012. He is presently a Non-Executive Director of the Company.

Mr Koh was formerly the Chief Executive Officer and President of Toll Asia Pte Ltd, formerly SembCorp Logistics Ltd (SembLog) which was acquired by Toll in May 2006. He has over 20 years of experience in the logistics industry. He is a board member of four other publicly listed companies and the Chairman of the Agri-Food and Veterinary Authority of Singapore.

Mr Koh holds a Bachelor of Engineering (Honours), a Master of Business Administration and a Postgraduate Diploma in Business Law.

KOH SOO KEONG

Non-Executive and Non-Independent Director

Mr Saleh was appointed as the Non-Executive and Non-independent Director of the Company on 1 May 2009.

Mr Saleh was appointed as the Governor of Dubai International Financial Centre (DIFC) in July 2011, by a Royal Decree issued by His Highness Sheikh Mohammed Bin Rashid Al Maktoum, UAE Prime Minister and Vice-President, and Ruler of Dubai. With over 40 years of experience in the financial services sector, Mr Saleh, a former advisor on financial matters to the Late Ruler of Dubai, H.H. Sheikh Rashid Bin Saeed Al Maktoum held numerous key positions in several leading organizations.

ABDULLA MOHAMMED SALEH

Non-Executive and Non-Independent Director

Mr Saleh was Chairman of Dubai Financial Service Authority (DFSA) from June 2007 to August 2011, having served as a Director of DFSA since 2004.

Mr Saleh is a former Vice Chairman of Emirates NBD Bank PJSC, the largest banking entity in the Middle East. Emirates NBD Bank PJSC was formed by the merger of National Bank of Dubai (NBD) and Emirates Bank International (EBI). Mr Saleh was one of NBD's founders in 1963, the Managing Director from 1982 until January 2004, and Chairman from 2005 until the merger with EBI.

Mr Saleh served as an Arbitrator on the Paris-based High Board of the Euro-Arab Arbitration Centre, from 1988 to 2000. He has been a Member of the Board of Qatar Fuel Additives Company since 1990 and has been Chairman of International Octane Limited since 1990. He is the Deputy Chairman and major shareholder of Dubai Transport Company LLC (DUTCO), the holding company of the DUTCO Group of Companies. He has been Chairman of MARSH INSCO (insurance brokers) since 1976.

He was educated in Sharjah and London and also attended the Institute of Bankers after completing his academic studies.

Mr Gibb was appointed as an Alternate Director to Mr Abdulla Mohammed Saleh on 22 December 2009.

He has been with Dutco since 1996 and is currently the Group's Chief Operating Officer. The Dutco Group is a leading Dubai based conglomerate comprising 20 companies and over 13,000 employees. The Company has significant interests in all sectors of construction, hospitality & leisure, oil and gas, manufacturing, development and investments and trading. Dutco are partners in the Middle East with many international companies such as Balfour Beatty plc from the UK and McConnell Dowell Ltd. from Australia.

NELSON McCALLUM GIBB

Alternate Director to Mr Abdulla Mohammed Saleh

Prior to joining Dutco in 1996, Mr Gibb was the Director for the International Business of the leading Mechanical and Electrical Engineering Company, Balfour Kilpatrick Ltd (a member of the Balfour Beatty Group of Companies, a major UK listed Construction Group), whose Projects and Companies were based across Asia, Africa, and the Middle East.

Mr Gibb was educated in West Africa, Indonesia and Scotland, completing his BA (Honours) at Stratchclyde University in Glasgow. Mr Gibb sits on many of the Boards of the Group of Companies of the Dutco Group.

Board of Directors

LIM HO SENG

Lead Independent Director

Mr Lim was appointed as Independent Director and subsequently Lead Independent Director of the Company on 1 September 2005 and 1 May 2008, respectively. He is also the Chairman of the Audit Committee and a member of the Remuneration Committee of the Company.

He is the Chairman of Baker Technology Ltd and a director of Kian Ann Engineering Ltd both of which are public companies listed on the Stock Exchange of Singapore. He was the former Chief Executive Officer of NTUC FairPrice Cooperative Ltd.

Mr Lim is a Fellow of the Institute of Certified Public Accountants Singapore, the Institute of Certified Public Accountants Australia and the Association of Chartered Certified Accountants of United Kingdom. He is also a Fellow of the Institute of Chartered Secretaries & Administrators and the Singapore Institute of Directors.

BILLY LEE BENG CHENG

Independent Director

Mr Lee was appointed as Independent Director of the Company on 15 April 2002. He is also the Chairman of the Remuneration Committee and the member of the Audit and Nominating Committees of the Company.

Mr Lee has extensive experience in the oil and gas and marine industries, having worked in the oil refining and petrochemical sectors, offshore drilling rig and platform construction including drilling several oil and gas wells both onshore and offshore in Asia. He held senior positions in several public-listed and private entities in the hydrocarbon industry in Singapore, Malaysia and China including Vice Chairman of the listed Shenzhen-Chiwan Petroleum Supply Base, Chairman of Singapore Offshore Petroleum Supply Base, President of Sembawang Marine & Logistics Ltd (formerly known as Sembawang Maritime Ltd), Managing Director of Hong Kong listed Promet Petroleum Ltd.

Mr Lee holds a First Class Honours Degree in Mechanical Engineering and a Master of Science from Leeds University, UK. He is also a member of the Singapore Institute of Management, the Institute of Engineers Singapore and the Singapore Institute of Directors.

WONG MENG YENG

Independent Director

Mr Wong was appointed as Independent Director of the Company on 15 April 2002. He is also the Chairman of the Nominating Committee and the member of the Audit and Remuneration Committees of the Company.

Mr Wong has been an advocate and solicitor in Singapore since 1984 and practises corporate law. He is currently a director of Alliance LLC, a law corporation he co-founded in 2001. He is also an independent director of Multichem Ltd, Baker Technology Ltd and Keong Hong Holdings Ltd. He was an independent director of Novena Holdings Ltd and Pan Asian Water Solutions Ltd.

Mr Wong graduated from the National University of Singapore in 1983 with a Bachelor of Laws (Honours) Degree.

Key Management

SAM CAREW-JONES

Group Chief Financial Officer

Mr Carew-Jones has been with KS Energy since 2009 and was our Director of Treasury prior to this appointment. He has over thirteen years' experience in the finance sector before joining KS Energy, including nine years in the banking industry with a major financial institution in Europe and the US and four years in practice as an auditor in London. Mr Carew-Jones qualified as a chartered accountant in the UK in 1999 and graduated in 1995 with a bachelor's degree in Physics from Imperial College, London.

DR ADAM PAUL BRUNET

Chief Executive Officer of KS Drilling Pte Ltd

Dr Brunet has worked in the oil industry since he left college in 1977 and started work as a Field Engineer for Schlumberger S.A. in West Africa. In 1983 Dr Brunet was involved in establishing PT Citra Tubindo Tbk ("Tubindo") and was their Technical Director for a number of years. From 2006 to 2010, Dr Brunet acted as an Executive Director of KS Energy focusing on the capital equipment division and later Managing Director of Oil, Gas and Energy Services. In January 2009, Dr Brunet was appointed Executive Director of KS Energy subsidiary Atlantic Oilfield Services Ltd and became its CEO on 1 May 2009. In 2011 Dr. Brunet became CEO of KS Drilling when it was formed in a merger of Atlantic Oilfield Services and the Capital Equipment Division of KS Energy. Dr Brunet, a postgraduate from Oxford University, is also an established academic who specialises in operations management.

DIANA LENG

Chief Financial Officer of KS Drilling Pte Ltd

Ms Leng, Chief Financial Officer of KS Drilling Pte Ltd, joined the KS Group in 2007 as Director of Group Treasury responsible for group corporate finance, mergers & acquisitions, and all funding-related activities. Ms Leng was appointed CFO and Director of KS Drilling in 2010. Prior to joining the KS Group, Ms Leng was with ING Group for 8 years where she gained experience in banking, insurance and asset management. She started her banking career in the Netherlands, and held various positions internationally. In her last position as Director of Business Management, she was responsible for the development and implementation of business strategies for its Corporate Lending Group in Asia. Prior to that, she was a Vice President in its Structured Finance department, handling origination, structuring and execution of transactions, as well as the provision of financing solutions for clients trading in oil and other commodities. Ms Leng holds a Master of Business Administration from Maastricht University.

RICHARD WILUAN

Director, Corporate Development of KS Energy Limited
Executive Director of KS Distribution Pte Ltd

Mr Wiluan was appointed as Director, Corporate Development of KS Energy Limited in July 2012. He is an Executive Director of KS Distribution Pte Ltd ("KSD"), the concurrent Managing Director of the International Division of the KSD Group (the "Group"), and two subsidiaries, SSH Corporation Ltd and KS Flow Control Pte Ltd. He plays a key role in the expansion of our project-related business, dealing with major European and Asian pipe-mills and is responsible for the Group's business development initiatives. He is also instrumental in the implementation and review of the business operations within the Group for performance improvement and business expansion. Prior to joining the Group, he worked as a consultant in a European management consulting firm, focusing on restructuring solutions for multinational manufacturing companies. Mr Wiluan holds a BA (Honours) in Economics from the University of Nottingham.

ENG CHIAW KOON

Chief Operating Officer of KS Distribution Pte Ltd

Mr Eng was appointed Chief Operating Officer of KSD in January 2012. He currently sits on the boards of a few KSD subsidiaries, including Aqua-Terra Supply Co. Limited, which he joined since October 2003. Mr Eng is primarily responsible for managing the overall business, operations and profitability of the KSD Group, formulating and implementing business strategies as well as charting the growth of the KSD Group. He spent his early career in the Electronics industry specializing in process audit, vendor quality and subsequently in general management. In 1996, he set up Aero-Green Technology (S) Pte Ltd to pioneer commercialization of aeroponic technology. Under his stewardship, the company won the first Asian Innovation Awards given by Far East Economic Review in 1998 and a UN Urban Agriculture Award in 2000. He graduated from the Singapore Polytechnic with a Technician Diploma in Mechanical Engineering in 1982.

CHUA WUI LIK, EDDIE

Chief Financial Officer of KS Distribution Pte Ltd

Mr Chua was appointed as the CFO of KSD in July 2010. He is responsible for the financial management and reporting, treasury management and information technology ("IT") matters for the entire group of companies. Since the establishment of KSD group in May 2010, he has consolidated the finance and IT functions under a shared services centre. He is also instrumental in the consolidation and implementation of the new ERP system for the KSD group. Mr Chua joined SSH Corporation Ltd, a previously listed company on SGX, in August 1996 as its Financial Controller and was appointed as its Finance Director in October 2001. Prior to joining KSD, he spent most of his career in local and multi-national corporations. Mr Chua has more than 30 years of experience as an accounting professional in areas covering auditing, financial management, accounting, treasury, IT, investor relations and corporate matters. Mr Chua is a postgraduate from Manchester Business School, a fellow member of the ACCA and ICPAS.

Corporate Social Responsibility and Employee Volunteerism

KS Energy ("KSE") Group encourages its employees to be responsible citizens who are environmentally conscious, make every effort to conserve energy and to reduce wastage. Employee volunteerism is also strongly encouraged while the Company strives to play its part in corporate giving and philanthropy. All these initiatives embody the group's philosophy on Corporate Social Responsibility ("CSR").

Our employee volunteerism programme, which started in 2011 with the card making sessions with our friends from the Muscular Dystrophy Association of Singapore ("MDAS") continued to draw active participation from our employees in 2012. Our employee volunteers attended these quarterly sessions and assisted our friends from the MDAS in the card making which provided all participants with an enjoyable and therapeutic activity. These handmade cards are then given out to all employees on their birthdays together with a gift voucher through their respective supervisor or Head of Department.

In June 2012, a group of KSE employees teamed up with staff from HSBC Bank in the HSBC's Corporate Responsibility Challenge. The participants took one full day to thoroughly clean, pack, paint and build conducive study areas for students from the lower income families. All the muscle aches and fatigues experienced by the participants dissipated as soon as they saw the smiles and grateful expressions on the faces of those families whose homes had been cleaned and refreshed.

In line with its philanthropic objective, KSE Group donated a sum of cash to the Singapore Children's Society, co-sponsored the Transport Subsidy Scheme of MDAS, co-sponsored the Tour of Hope (a welfare project to build a library and a community centre in Ranong Province, Thailand) and participated in the Singapore Disability Sports Council's fund raising event, during the year.

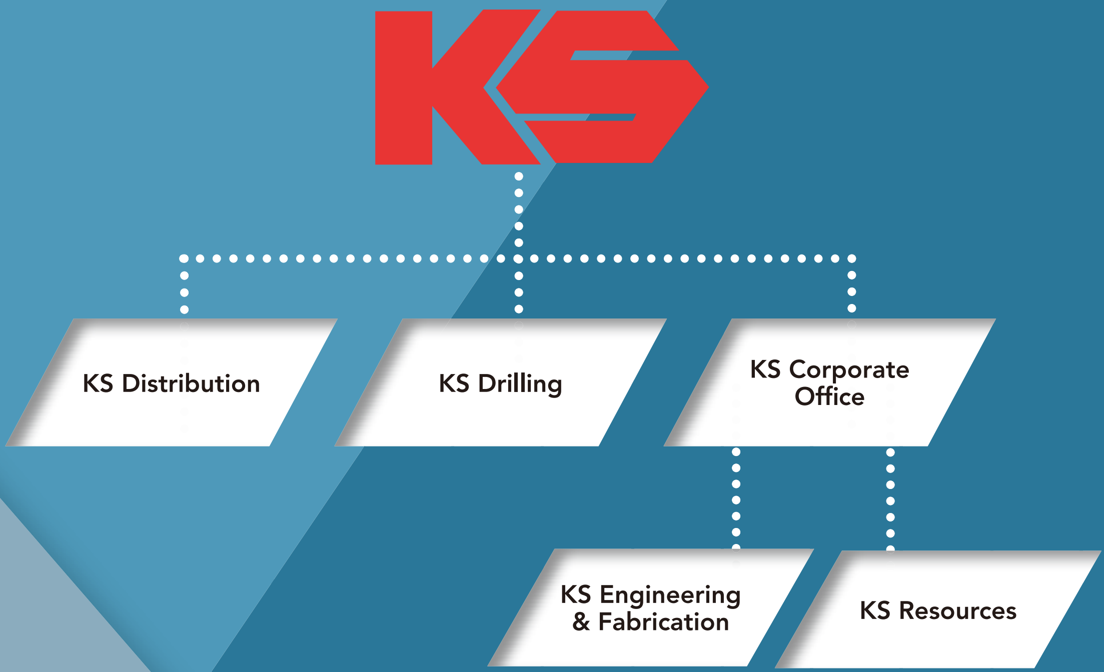
In November 2012, we hosted a Roadshow by MDAS at our staff canteen to exhibit the handicraft of our friends from MDAS as a fund raising exercise. There was an overwhelming response from our employees who purchased many items on display, such as, calendars, notepads, bookmarks, etc. Our MDAS friends left our office premises in a jubilant mood and they eagerly look forward to returning with more items for sale in 2013.

In our on-going efforts to encourage recycling and waste reduction, a donation cum recycling drive was held on 5 and 6 December 2012 in conjunction with The Salvation Army. Staff generously donated clothes, household items, books, toys, etc. A few employees also contributed bulky items, such as, TV, sofa and dressing table sets which required special pick-up arrangements with The Salvation Army to collect these items from the respective employee's home.

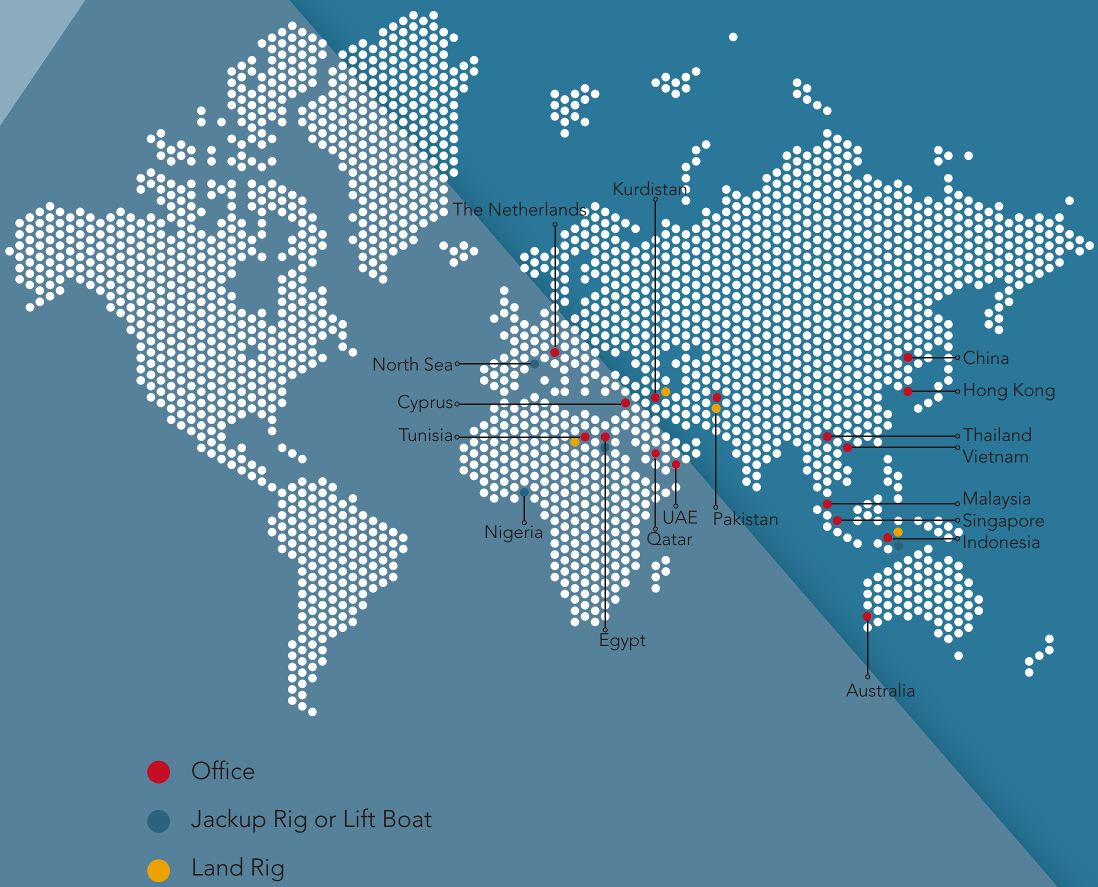
To keep abreast of the latest developments in CSR activities, the Group renewed its corporate membership with the Singapore Compact and its Pledge to be a Fair Employer.

In view of the enthusiastic response from its staff in 2012, the KSE Group plans to expand its CSR initiatives within and beyond Singapore in 2013. These new CSR initiatives would enable the Group to continue being an active and socially responsible corporate citizen as well as to offer a wider choice of activities for employees' participation in future events.

Business Segments



KS Energy Group's Global Network



KS Distribution Offices

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AQUA-TERRA OILFIELD EQUIPMENT & SERVICES PTE. LTD.
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+964 770 836 5340

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+92 21 3583 7595
Fax: +92 21 3583 8072

Properties owned by the Group

Details of properties owned by the group are as follows:

Description/Location	Gross Floor Area	Tenure of Land / Last Valuation Date
Leasehold Property 17 Jurong Port Road Singapore 619092	20,835 sqm	60 years from 1 June 1967 31 December 2012
Leasehold Property 19 Jurong Port Road Singapore 619093	30,304 sqm	60 years from 1 June 1967 31 December 2010
Leasehold Property 15 Joo Yee Road Singapore 619200	7,497 sqm	30 years from 1 May 2002 30 October 2008
Leasehold Property 14 Jalan Tukang Singapore 619253	10,526 sqm	7 years 2.5 months from 16 October 31 December 2008

Corporate Governance Statement

KS Energy Limited (the "Company") is committed to maintaining high standards of corporate governance in conducting the Group's business and believes that strengthening corporate transparency through sound corporate policies, business practices and internal controls would enable the Company to safeguard its assets and interests while it strives to achieve its objectives and attain sustainable growth and value for its shareholders. This report describes the Company's corporate governance practices with specific reference to the 2005 Code of Corporate Governance (the "Code"), where applicable. Other than deviations which are explained in this statement, the Company has complied with the principles of the Code. With the revised Code of Corporate Governance issued by the Corporate Governance Council and amended by the Monetary Authority of Singapore on 2 May 2012 (the "2012 Code"), the Board and Management have taken steps to align the Group's governance framework with the recommendations of the 2012 Code, where they are applicable, relevant and practicable to the Group. The 2012 Code is effective in respect of the Company's Annual Report for the financial year ending 31 December 2013.

BOARD OF DIRECTORS

Principle 1: Board's Conduct of its Affairs

The Board has the duty to protect and enhance the long-term value of the Company and achieve sustainable growth of the Group. It sets the overall strategic direction of the Company and oversees the proper conduct of the business, performance and affairs of the Group. Board members are expected to act in good faith and exercise independent judgement in the best interests of the Group.

Apart from its fiduciary duties under the law, the principal functions of the Board include:

a) To set values and standards of the Group to ensure obligations to shareholders and other stakeholders are understood and met;

b) To provide entrepreneurial leadership, approve corporate policies and strategies to ensure that the necessary financial and human resources are in place for the Group to achieve its objectives;

c) To establish goals for Management, monitor and review Management's performance against such goals;

d) To oversee the processes for evaluating the adequacy of internal controls and risk management, including financial, operational and compliance risk areas, identified by the Audit Committee, that needed to be strengthened for assessment and the Audit Committee's recommendations on actions to be taken to address and monitor the areas of concern;

e) To review the operational and financial performance, approve annual budget, key operational matters, major acquisition and divestment proposals, major funding proposals of the Group including approval and release of the financial results announcements and audited financial statements of the Group and timely announcements of material transactions;

f) To approve all Board appointments/re-appointments and appointments of key management as well as evaluate their performance and reviewing their remuneration packages; and

g) To assume responsibility for corporate governance framework of the Group.

To facilitate effective management and assist the Board in discharging its responsibilities to enhance the Group's corporate governance framework, certain functions of the Board have been delegated to various Board Committees, namely Audit, Nominating and Remuneration Committees. Each Board Committee has the authority to examine particular issue and report back to the Board with their recommendations. The ultimate responsibility for the final decision on all matters, however, lies with the Board. Further information regarding the functions of the respective Board Committees is set out in the later part of this Report.

Corporate Governance Statement

The Board conducts regular scheduled meetings on a quarterly basis. Ad-hoc meetings are convened when circumstances require. The Company's Articles of Association (the "Articles") provide for Board meetings to be conducted by way of telephone and video conferencing or any other electronic means of communication.

Directors are welcomed to request for further explanations, briefing or discussion on any aspect of the Group's operations or business from the Management. When circumstances require, Board members exchange views outside the formal environment of Board meetings.

The attendance of the Directors at meetings of the Board and Board Committees as well as number of such meetings during the year ended 31 December 2012 is set out in the table below:

Name of Director	Board	Audit Committee	Nominating Committee	Remuneration Committee
Mr. Kris Taenar Wiluan	4	N/A	1	N/A
Mr. Koh Soo Keong	3	N/A	N/A	N/A
Mr. Abdulla Mohammed Saleh (Alternate: Mr. Nelson McCallum Gibb)	4	N/A	N/A	N/A
Mr. Lim Ho Seng	4	7	N/A	3
Mr. Billy Lee Beng Cheng	4	7	1	3
Mr. Wong Meng Yeng	4	7	1	3
Total No. of Meeting(s) Held in 2012	**4**	**7**	**1**	**3**

Principle 2: Board Composition and Guidance

The Board of Directors comprises the following:

Name	Date of appointment	Date of last re-election
Executive Director		
Mr. Kris Taenar Wiluan	2 May 2006	26 April 2012
Non-Executive and Non-Independent Directors		
Mr. Abdulla Mohammed Saleh (Alternate: Mr. Nelson McCallum Gibb)	1 May 2009 22 December 2009	28 April 2010 N.A.
Mr. Koh Soo Keong (re-designated from Executive Director to Non-Executive Director with effect from 6 July 2012)	1 March 2008	28 April 2011
Non-Executive and Independent Directors		
Mr. Lim Ho Seng	1 September 2005	28 April 2011
Mr. Billy Lee Beng Cheng	15 April 2002	28 April 2010
Mr. Wong Meng Yeng	15 April 2002	26 April 2012

There is an independent element on the Board with three Independent Directors out of six Directors of the Company. The Non-Executive Directors contribute to the Board process by monitoring and reviewing Management's performance against goals and objectives. Their views and opinions provide alternate perspectives to the Group's business. When challenging Management's proposals or decisions, they bring independent judgement to bear on business activities and transactions involving conflicts of interest and other complexities.

The size of the Board is reviewed on an ongoing basis and its current size is considered appropriate for the facilitation of effective decision making. As a team, the Board collectively provides core competencies in the areas of oil and gas industry knowledge, legal, accounting, finance, business and management experience. Key information of the Board members is set out on pages 12 to 14 of the Annual Report.

The duties and responsibilities of the Executive and Non-Executive Directors are clearly set out in their respective Engagement Letters.

Each Director is responsible for his own training needs and utilizes a budget provided by the Company for his training requirements to keep abreast developments in law, regulation, accounting and industrial practices and changes in technology.

The Company has orientation programmes for newly appointed Directors to familiarise themselves with the Group's senior Management, culture, business, governance and best practices. No new Director was appointed during the financial year ended 31 December 2012 ("FY2012").

Principle 3: Chairman and Chief Executive Officer ("CEO")

The Board is of the opinion that there is an independent element on the Board to enable independent exercise of objective judgment on the corporate affairs of the Group and that there is a good balance of power and authority. There are adequate safeguards and checks in place to ensure that the process of decision-making by the Board is independent and based on collective decision-making, without any one person being able to exercise considerable concentration of power or influence. The Board with the concurrence of the Nominating Committee believes that vesting the roles of both Chairman and CEO on the same person who is knowledgeable in the business of the Group provides the Group with a strong and consistent leadership, thus allowing for more effective planning and execution of long-term business strategies. As such, there is no need for the role of the Chairman and the CEO to be separated. The Nominating Committee will review the need to separate the roles from time to time and make its recommendations accordingly.

The Group's Executive Chairman and CEO, Mr. Kris Taenar Wiluan plays an instrumental role in developing the business of the Group and provides the Group with strong leadership and vision. He is responsible for the operational and strategic policies of the Group. As the Group's Executive Chairman and CEO, he also has the responsibility of setting the meeting agenda of the Board meetings, leading the other Board members, promoting high standards of corporate governance and maintaining effective communication with shareholders of the Company.

He ensures that Board meetings are held when necessary. He reviews most Board papers before they are presented to the Board and ensures that Board members are provided with complete, adequate and timely information. As a general rule, the Company endeavors to send Board papers to Directors at least 3 working days in advance for Directors to be adequately apprised of matters to be discussed at the meeting. Management staff is invited to attend Board meetings, as and when necessary, to provide additional insight on matters to be discussed.

The Executive Chairman and CEO's performance and appointment to the Board are reviewed periodically by the Nominating Committee and his remuneration package is reviewed by the Remuneration Committee. Both the Nominating and Remuneration Committees are chaired by Independent Directors.

Lead Independent Director ("LID")

Mr Lim Ho Seng was appointed as LID on 1 May 2008. As LID, Mr Lim is the principal liaison to address shareholders' concerns, in which direct contact through normal channels of the Chairman/CEO or CFO has failed to resolve or for which such contact is inappropriate. His other specific roles as LID are as follows:

a) act as liaison between the Independent Directors of the Board and the Chairman of the Board and lead the Independent Directors to provide non-executive perspectives in circumstances where it would be inappropriate for the Chairman to serve in such capacity and to contribute a balanced viewpoint to the Board;

b) advise the Chairman of the Board as to the quality, quantity and timeliness of the information submitted by the Management that is necessary or appropriate for the Independent Directors to effectively and responsibly perform their duties;

c) assist the Board and Company officers in better ensuring compliance with and implementation of the Governance Guidelines; and

d) serve as a liaison for consultation and communication with shareholders.

BOARD COMMITTEES

Nominating Committee

Principle 4: Board Membership

The Nominating Committee ("NC") comprises the following:

Mr. Wong Meng Yeng	(Chairman and Independent Director)
Mr. Billy Lee Beng Cheng	(Independent Director)
Mr. Kris Taenar Wiluan	(Executive Director)

The functions of the NC include the following:

a) review and recommend to the Board the structure, size and composition of the Board and the Board Committees;

b) identify, review and recommend candidates for appointment as Directors of the Company and appointment to the Board Committee as well as to senior Management positions in the Company;

c) evaluate the effectiveness of the Board as a whole and assess the contribution by each Director to the effectiveness of the Board;

d) determine annually, on a discretionary basis, whether or not a Director is independent, bearing in mind the circumstances set forth in the Code and any other salient factors;

e) in respect of a director who has multiple board representations on various companies, to decide whether or not such director is able to and has been adequately carrying out his/her duties as a director, having regard to competing time commitments; and

f) make recommendations to the Board on the re-appointment or re-election of the Directors to the Board at the Company's annual general meetings, having regard to the directors' contribution and performance.

Corporate Governance Statement

The NC had adopted the Code's definition of an independent director and guidelines as to relationships in determining the independence of a director. In addition, the NC requires each Non-Executive Director to assess his own independence by completing a Confirmation of Independence form which is drawn up in accordance with the guidelines of the Code and state whether he considers himself independent despite having any of the relationships identified in the Code which would deem him not to be independent, if any. The NC will then review and determine his independence.

During the year, the NC has reviewed and determined the independence of the Directors with reference to the guidelines set out in the Code and is of the view that Mr Lim Ho Seng, Mr Billy Lee Beng Cheng and Mr Wong Meng Yeng are independent. Mr Abdulla Mohammed Saleh is Director and his alternate, Mr Nelson McCallum Gibb, Chief Operating Officer of Dubai Transport Co LLC, a substantial shareholder of the Company. He is deemed a Non-Executive and Non-Independent Director in view of his association with the said substantial shareholder.

Save as disclosed, none of the other Non-Executive Directors are related and do not have any relationship with the Company, its related corporations, or its officers or are in any circumstances that could interfere or be reasonably perceived to interfere, with the exercise of their independent business judgement with a view to the best interests of the Company.

The Board concurred with the NC's views after having considered the Confirmation of Independence forms submitted by the Non-Executive Directors.

In accordance with the provisions of the Articles, one-third of the Directors will retire by rotation and are subject to re-election at every Annual General Meeting ("AGM"). New Directors who are appointed by the Board will submit themselves for re-election at the following AGM.

Mr Koh Soo Keong and Mr. Billy Lee Beng Cheng are Directors who are retiring by rotation at the AGM. Mr Koh Soo Keong has expressed his intention to retire at the AGM and will not seek re-election.

The NC, having considered the attendance and participation of Mr Billy Lee Beng Cheng at Board and Board Committee meetings, in particular, his contribution to the business and operations of the Company as well as Board processes, had recommended his nomination for re-election at the forthcoming AGM. His profile is set out in page 14 of the Annual Report.

The Board had accepted the NC's recommendation and being eligible, Mr. Billy Lee Beng Cheng will be offering himself for re-election at the AGM. Mr. Billy Lee Beng Cheng, being an NC member, had abstained from deliberation and voting in respect of his own nomination and assessment.

Pursuant to Section 153(6) of the Companies Act, Cap. 50, a person of or over the age of 70 years may, by ordinary resolution passed at an annual general meeting of a company be re-appointed as a director of the Company. The NC noted that Mr. Abdulla Mohammed Saleh had attained the age of 70 years and is required to vacate his office at the conclusion of the forthcoming AGM of the Company. Mr. Abdulla Mohammed Saleh has expressed his intention to retire and does not wish to seek re-appointment as a Director of the Company at the forthcoming AGM.

A Director with multiple board representations is expected to ensure that sufficient time and attention is given to the affairs of the Group. The NC, having considered the confirmations received from Mr Abdulla Mohammed Saleh and his alternate, Mr Nelson McCallum Gibb, Mr Koh Soo Keong, Mr Lim Ho Seng, Mr Billy Lee Beng Cheng and Mr Wong Meng Yeng, is of the view that such multiple board representations do not hinder the Directors from carrying out their duties in the Company. The NC is also satisfied that sufficient time and attention have been accorded by these Non-Executive Directors to the affairs of the Company. The Board concurred with the NC's views.

Corporate Governance Statement

Principle 5: Board Performance

The NC has in place an annual Board performance evaluation to assess the effectiveness of the Board and to facilitate discussion to enable the Board to discharge its duties more effectively. The annual Board performance evaluation is carried out by means of a questionnaire relating to the size and composition of the Board, information flow to the Board, Board procedures and accountability, matters concerning CEO/Senior Management and standards of conduct of Board members being completed by each individual director.

The Board has taken the view that the financial indicators recommended under the Code to be included as part of the performance criteria for Board evaluation may be used where appropriate. Completed questionnaires are collated by the Company Secretary and the findings analyzed and discussed with the NC and the Board respectively.

An evaluation of the Board performance for FY2012 was conducted by the NC. The aim of this evaluation was to review the effectiveness of the Board as a whole and to provide an opportunity to obtain constructive feedback from each Director on whether the Board's procedures and processes had allowed him to discharge his duties effectively. Board members are encouraged to propose changes which may be made to enhance Board effectiveness as a whole. The results of the Board performance evaluation were collated and the findings were presented to the NC for discussion with comparatives from the previous year's results.

The NC, in considering the contribution of each Director to the effectiveness of the Board, had reviewed:

a) the attendance and participation of the Directors at Board and Board Committees meetings;

b) the competing time commitments of Directors with multiple board seats; and

c) the independence of Independent Directors, where applicable.

The NC had noted that the overall rating for FY2012 had improved compared to FY2011 and is generally satisfied with the results of the Board performance evaluation for FY2012, which indicated areas of strengths and those that could be improved further. No significant problems were identified. The NC had discussed the results with Board members who agreed to work on those areas that could be improved further. The NC would continue to evaluate the process for such review and its effectiveness from time to time.

Principle 6: Access to Information

Management provides the Non-Executive Directors with monthly management reports, information, background and explanatory notes pertaining to areas such as budget, forecast, the funding positions and quarterly financial statements of the Group, to help them carry out their responsibilities effectively. In addition, all relevant information on material events and transactions are circulated to Directors as and when they arise.

The Executive Chairman and CEO sits on the board of the Group's key subsidiaries, KS Distribution Pte. Ltd. and KS Drilling Pte Ltd. He is the important link between the Board and the boards of the key subsidiaries and keeps Board members abreast of key developments affecting the Group as well as material transactions in order that the Board is fully aware of the affairs of the Group. All Board members have direct access to senior Management and to the Company Secretary. The appointment and the removal of the Company Secretary is a reserved matter of the Board.

The Company Secretary's responsibilities include ensuring that:

a) Board procedures are followed;

b) applicable requirements of the Companies Act and listing rules of the SGX-ST are complied with; and

c) there is adequate and timely information flow between senior Management and Non-Executive Directors prior to the respective meetings and on an ongoing basis.

All Board members also have separate and independent access to the senior Management of the Company and the Group. All Board members are aware that they, whether as a group or individually, in the furtherance of their duties, can take independent professional advice, if necessary, at the Company's expense. The appointment of such independent professional advisor is subject to approval by the Board.

Remuneration Committee

Principle 7: Procedures for Developing Remuneration Policies
Principle 8: Level and Mix of Remuneration
Principle 9: Disclosure on Remuneration

The Remuneration Committee ("RC") comprises the following:

Mr. Billy Lee Beng Cheng	(Chairman and Independent Director)
Mr. Lim Ho Seng	(Lead Independent Director)
Mr. Wong Meng Yeng	(Independent Director)

The functions of the RC include the following:

a) recommending to the Board base salary level, benefits and incentive programs, and identify components of salary which can best be used to focus Management staff on achieving corporate objectives;

b) approving the structure of compensation programme (including but not limited to Directors' fees, salaries, allowances, bonuses, options and benefits in kind) for the Directors and senior Management to ensure that the programme is competitive and sufficient to attract, retain and motivate senior Management of the required quality to run the Company successfully;

c) reviewing, on an annual basis, the compensation packages of the Chairman, senior Management and those employees related to the Directors of the Company;

d) reviewing the remuneration of the Non-Executive Directors, taking into account factors such as their effort, time spent and responsibilities; and

e) functioning as the committee referred to in the KS Energy Employee Share Option Scheme and KS Energy Performance Share Plan and shall have all the powers set out in both schemes.

The Company's remuneration package comprises a base/fixed salary component and a variable bonus component that is linked to the Company/Group and individual performances.

Corporate Governance Statement

Disclosure on Directors' Remuneration

In setting the remuneration packages of the Executive Directors, the RC takes into account the respective performances of the Group and of the individual. In its deliberation, the RC takes into consideration, remuneration packages and employment conditions within the industry and benchmarked against comparable companies.

The structure of fees paid to the Non-Executive Directors is as follows:

(i) basic fee

(ii) fee for serving on each of the Board and Board Committees

(iii) meeting fee for attending each Board and Board Committees meeting

The Chairman of each of these committees is compensated for additional responsibilities that may be assigned to him. Such fees are approved by the shareholders of the Company as a lump sum payment at the AGM of the Company.

The RC is of the view that the current remuneration of the Non-Executive Directors is appropriate, taking into account factors such as their effort, time spent and responsibilities. Other than the Directors' fees, the Non-Executive Directors, save for Mr Koh Soo Keong, do not receive any other forms of remuneration from the Company. Mr Koh Soo Keong was re-designated from an Executive Director to a Non-Executive Director on 6 July 2012. His remuneration for FY2012 includes part salary and part Director's fees and is pro-rated accordingly. The NC had recommended to the Board an amount of S$292,000 as Directors' fees for FY2012. This recommendation had been endorsed by the Board and will be tabled at the Company's AGM for shareholders' approval.

The RC had also carried out an annual review of the Chairman and senior Management's remuneration packages to ensure that their remuneration commensurate with their performance, giving due regard to the financial health and business needs of the Group. For FY2012, the RC is satisfied with the Chairman and senior Management's remuneration packages and has recommended the same for Board approval. The Board concurred with the RC's recommendations accordingly.

The RC members or Directors did not participate in any decision concerning their own remuneration.

The following table shows a breakdown (in percentage terms) of directors' remuneration for the financial year ended 31 December 2012, falling within broad bands:

	Breakdown of the Directors' remuneration				
	Salary & CPF (%)	**Fee (%)**	**Bonus & CPF (%)**	**Other Benefits (%)**	**Total (%)**
Above S$750,000					
Mr. Kris Taenar Wiluan	84	0	12	4	100
Below S$250,000					
Mr. Koh Soo Keong	87	13	–	–	100
Mr. Abdulla Mohammed Saleh (Alternate: Mr. Nelson McCallum Gibb)	–	100	–	–	100
Mr. Lim Ho Seng	–	100	–	–	100
Mr. Billy Lee Beng Cheng	–	100	–	–	100
Mr. Wong Meng Yeng	–	100	–	–	100

Corporate Governance Statement

The remuneration of the top seven executives, who are not Directors of the Company for the financial year ended 31 December 2012 falls within the remuneration bands as follows:

Remuneration Bands	Number of Executives
Above S$500,000 to S$750,000	1
Above S$250,000 to S$500,000	6

For confidentiality reasons, the Company is not disclosing each individual executive's remuneration and their names.

There are two executives within the remuneration band of S$250,000 to S$500,000 as above, who are related to the Executive Chairman and CEO and one of whom is an immediate family member.

No options or performance shares were grated under the KS Energy Employee Share Option Scheme and KS Energy Performance Share Plan. Further details regarding both schemes are disclosed on pages 37 to 38 of the Directors' Report.

Principle 10: Accountability

The Board is responsible for providing a balanced and understandable assessment of the Group's performance, financial position and prospects. On a monthly basis, Management provides Board members with management accounts and reports and reports on the Group's financial position and competitive conditions of the industry in which the Group operates on a quarterly basis.

Relevant information on material events and transactions are reviewed by the Board, as and when they arise.

The Board is updated on amendments/requirements of the Singapore Exchange Securities Trading Limited ("SGX-ST"), and other statutory and regulatory requirements from time to time.

In line with the requirements of the SGX-ST, negative assurance statements were issued by the Board to accompany the Group's quarterly financial results announcements, confirming to the best of the Board's knowledge that nothing had come to the Board's attention which could render the Company's results announcements to be false and misleading. The Company is not required to issue negative assurance statement for its full year results announcement.

Audit Committee

Principle 11: Audit Committee

The Audit Committee ("AC") comprises the following:

Mr. Lim Ho Seng	(Chairman and Lead Independent Director)
Mr. Billy Lee Beng Cheng	(Independent Director)
Mr. Wong Meng Yeng	(Independent Director)

The Board is of the view that the AC members are appropriately qualified, having the necessary accounting and/or related management expertise or experience as the Board interprets such qualifications to discharge their responsibilities.

The AC meets at least four times a year and as and when deemed appropriate to carry out its function.

Corporate Governance Statement

The AC performs the following functions, where applicable:

a) reviews with the external auditors, their audit plan, evaluation of the accounting controls, audit reports and any matters which the external auditors wish to discuss;

b) reviews with the internal auditors, their audit plan and reports, the adequacy of the internal audit procedures and their evaluation of the effectiveness of the overall internal control systems, including financial, operational and compliance controls and risk management;

c) reviews the quarterly and annual financial statements, including announcements to shareholders and the SGX-ST prior to submission to the Board for approval, so as to ensure the integrity of the Company's financial statements;

d) reviews the internal control procedures to ensure co-ordination between the internal and external auditors, any significant findings and recommendations of the external and internal auditors and related management response including co-operation and assistance given by the Management to the internal and external auditors;

e) reviews interested person transactions ("IPT") to ensure that internal control and review procedures are adhered to, and pursuant to the general mandates for IPT approved at the Extraordinary General Meetings ("EGM") held on 26 April 2012 and 7 December 2012 respectively;

f) conducts annual review of the cost effectiveness of the audit, independence and objectivity of the external auditors, including the volume of non-audit services provided by the external auditors, to satisfy itself that the nature and extent of such services will not prejudice the independence and objectivity of the external auditors before confirming their re-nomination;

g) the appointment or re-appointment of the internal and external auditors and matters relating to resignation or dismissal of the auditors;

h) arrangements by which staff of the Group may in confidence, raise concerns about possible improprieties in financial reporting or, other matters;

i) potential conflicts of interests, if any; and

j) such other reviews and projects as may be requested by the Board and will report to the Board its findings from time to time on matters arising and requiring the attention of the AC and generally undertake such other functions and duties as may be required by statute or the Listing Manual, and by such amendments made thereto from time to time.

The Company has put in place a Whistle-Blowing Policy for the Group to encourage and to provide accessible channels in the Group through which employees of the Group may report and to raise in good faith and in confidence, any concerns about possible improprieties, fraudulent activities, malpractices within the Group in a responsible and effective manner in matters of financial reporting or other matters. The objective of the Whistle-Blowing Policy is to facilitate independent investigation of such matters, and for appropriate follow-up action. There were no whistle blowing reports received in FY2012.

The AC has full authority to commission investigations and review findings into matters when alerted of any suspected fraud, irregularity, failure of internal controls or infringement of any law that may likely to have a material impact on the Group's operating results. It also has full access to and co-operation by Management and also full discretion to invite any director or executive officer to attend its meetings as well as reasonable resources to enable it to discharge its function properly.

The AC meets with the Group's internal and external auditors and Management to review accounting, auditing and financial reporting matters so as to ensure that an effective system of control is maintained in the Group. For FY2012, the AC had:

(i) held seven meetings;

(ii) reviewed the quarterly and full-year financial statements and, considered both the external and internal audit plans;

(iii) reviewed the adequacy of internal control procedures and transactions with Interested Persons;

(iv) met with both the internal and external auditors, without the presence of Management, to obtain feedback on Management's co-operation during the audit and on other matters or, concerns that warrants the AC's attention. Both the internal and external auditors had confirmed that they had access to and received full cooperation and assistance from Management and no restrictions were placed on the scope of audits;

(v) undertaken a review of all non-audit services provided by the external auditors and is of the opinion that the nature and provision of such services would not affect the independence and objectivity of the external auditors. The external auditors have affirmed their independence in this respect. The following fees amounting to S$1,138,000 were approved:

Audit fees	S$755.000
* Non-Audit fees	S$383,000

Non-audit fees were mainly in respect of tax compliance and advisory services, IT business process review and system selection and governance, risk and compliance services.

(vi) confirmed that the Company has complied with Rules 712 and 715 of the Listing Rules of the SGX-ST. The AC was satisfied that the resources and experience of KMPG LLP, the audit engagement partner and his team assigned to the audit of the Group were adequate to meet their audit obligations, given the size, nature, operations and complexity of the Group. The accounts of the Company, all Singapore-incorporated subsidiaries and a significant foreign subsidiary are audited by KPMG LLP, an auditing firm registered with the Accounting and Corporate Regulatory Authority. The Group's subsidiaries, associates and jointly controlled entities are disclosed under Notes 14 and 15 of the Notes to the Financial Statements on pages 78 to 79 and 82 to 87 respectively of this Annual Report.

The AC, with the concurrence of the Board, had recommended the re-appointment of KPMG LLP as auditors for FY2013 at the forthcoming AGM based on their performance and quality of their audit.

Principle 12: Internal Controls
Principle 13: Internal Audit

The Company continues to engage an independent audit firm, BDO LLP, as its internal auditors to support the in-house internal audit team and they both report directly to the AC. The role of the internal auditors is to support the AC in ensuring that the Group maintains a sound system of internal controls by highlighting missing controls in the current process, ascertaining that operations were conducted in accordance with established policies and procedures and to identify areas for improvement, where controls can be strengthened. The AC will review the adequacy of the internal auditors to ensure that it is sufficiently resourced and able to perform its function effectively and objectively. For FY2012, the AC is satisfied that the resources and experience of BDO LLP, the internal audit engagement partner and his team assigned to the internal audit of the Group were adequate to meet their internal audit obligations.

Corporate Governance Statement

The AC, with the assistance of the internal and external auditors, reviews the adequacy of the Company's internal financial controls, operational and compliance controls, and risk management policies and systems established by the Management on an annual basis.

During the year under review, the internal auditors had reviewed key processes to test the effectiveness of internal controls within the Group. In addition, the external auditors have, during the course of their audit, tested the operating effectiveness of certain controls over the Group's financial reporting process. Non-compliance or lapses in internal controls together with corrective measures are reported to the AC. No material non- compliance or lapses in internal controls were raised by the internal auditor in the course of their audit. The AC will review the internal and external auditors' comments and findings and ensure that there are adequate internal controls in the Group and follow up on actions implemented.

The Board recognizes that no internal control system will preclude all errors and irregularities, as a system is designed to manage rather than eliminate the risk of failure to achieve business objectives, and can only provide reasonable and not absolute assurance against material misstatement or loss. The review of the Group's internal control systems is a concerted and continuing process.

As recommended by the SGX-ST, an opinion of the Board with the concurrence of the AC on the adequacy of the internal controls, addressing financial, operational and compliance risks is set out in the Directors' Report under page 39 of the Annual Report.

COMMUNICATION WITH SHAREHOLDERS

Principle 14: Communication with Shareholders
Principle 15: Greater Shareholder Participation

The Company strives for timeliness and transparency in its disclosures to the shareholders and the public. All information on the Company's developments and initiatives are first disseminated via SGXNET followed by a news release, where appropriate. The Company currently holds analyst briefing upon request following the release of its quarterly financial results.

The Company does not practise selective disclosure. Price-sensitive information is first publicly released via SGXNET, either before the Company meets analysts or simultaneously with such meetings. Results and annual reports are announced or issued within the period prescribed by the SGX-ST.

The Company regularly updates its corporate website at www.ksenergy.com.sg through which shareholders will be able to access information on the Group. The website provides a business profile, corporate announcements, press releases and other information of the Group.

At general meetings of the Company, shareholders are given the opportunity to express their views and ask questions regarding the Company and the Group. The Board welcomes questions from shareholders who have an opportunity to raise issues or seek clarifications either informally or formally before or at the general meetings. The notice of the AGM is despatched to shareholders, together with explanatory notes or a circular on items of special business, at least 14 days before the meeting for ordinary resolutions and 21 days before the meeting for special resolutions. There are separate resolutions on each distinct issue. The Chairmen of the AC, NC and RC will normally be available at the shareholders' meetings to answer those questions relating to the work of these committees. The external auditors and key management staff of the Company will also normally be present to address shareholders' queries about the conduct and the preparation and content of the auditors' report.

The Board may from time to time review the provisions of the existing Articles of the Company to ensure they are in line with the good corporate governance practices as recommended by the Code. If the Board thinks fit, it may propose any necessary amendments for shareholders' approval.

Corporate Governance Statement

SECURITIES TRANSACTIONS

The Company has adopted a policy governing dealings in the securities of the Company for Directors and employees. Directors and employees are prohibited from dealing in the securities of the Company during the period commencing two weeks before the announcement of the Company's financial statements for the first and third quarter of its financial year, and one month before the announcement of the Company's half year and full year financial statements, as the case may be, and ending on the date of the announcement of the relevant results.

Directors and employees of the Company are also prohibited from dealing in the securities of the Company whilst in possession of price-sensitive information. The Company issues circulars regularly to notify its Directors, principal officers and relevant officers who have access to or are in possession of unpublished material price-sensitive information to remind them of the aforementioned prohibition and of the requirement to report their dealings in shares of the Company.

The Company has complied with Rule 1207(19) of the Listing Manual of the SGX-ST.

MATERIAL CONTRACTS

Other than as disclosed below and in note 26 of Financial Statements on pages 106 and 107, there were no other material contracts entered into by the Company and its subsidiaries involving the interest of the CEO, Director or controlling shareholder, which were either subsisting at the end of the financial year or, if not then subsisting, entered into since the end of the previous financial year.

INTERESTED PERSON TRANSACTIONS

The Group has established procedures to ensure that all transactions with interested persons are reported in a timely manner to the Audit Committee and that the transactions are on an arms' length basis.

EGMs of the Company have been held on 26 April 2012 and 7 December 2012 respectively to approve interalia the mandate for interested person transactions with PT DWI Sumber Arca Waja Group and the mandate for interested person transactions between PT KS Drilling Indonesia and/or its subsidiaries and KS Energy Limited and/or its subsidiaries.

Save as disclosed below, there are no interested persons transactions between the Company or its subsidiaries and any of its interested persons during the financial year under review.

Name of Interested Person	Year ended 31 December 2012	
	Aggregate value of all IPTs during the financial year under review [excluding transactions less than $100,000 and transactions pursuant to the IPT Mandate (or a shareholders' mandate for IPTs under Rule 920 of the New Listing Manual)]	Aggregate value of all IPTs under the IPT Mandate (or a shareholders' mandate for IPTs under Rule 920 of the New Listing Manual) during the financial year under review (excluding transactions less than $100,000)
Kris Taenar Wiluan	S$6,818, 410	S$146,305,189 #
Abdullah Mohammed Saleh	S$1,064,755	–

IPT Mandate approved by shareholders.

Corporate Governance Statement

Exempt under IPT mandate	
	S$
Transaction with PT Dwi Sumber Arca Waja	1,770,675
Sale of Java Star rig	68,325,488
Arrangement fee for the shareholders' loan	500,920
Shareholders' loan	67,423,832*
Expected interest income on loan	8,284,274
	146,305,189

* With reference to the IPT Mandate approved by shareholders at the EGM held on 7 December 2012 and the Circular dated 22 November 2012, the Group provided financing to PT Java Star Rig as at 31 December 2012 by way of a shareholder loan, that accrues interest at the rate of 7% per year, amounting to US$67.3 million from KS Drilling Pte Ltd, a 80% subsidiary of the Company, to finance the acquisition of the jack-up rig named "KS Java Star".

Financial Contents

Directors' Report

We are pleased to submit this annual report to the members of the Company, together with the audited financial statements for the financial year ended 31 December 2012.

DIRECTORS

The directors in office at the date of this report are as follows:

Kris Taenar Wiluan
Koh Soo Keong
Abdulla Mohammed Saleh
(Alternate: Nelson McCallum Gibb)
Lim Ho Seng
Billy Lee Beng Cheng
Wong Meng Yeng

DIRECTORS' INTERESTS

According to the register kept by the Company for the purposes of Section 164 of the Companies Act, Chapter 50 (the "Act"), particulars of interests of directors who held office at the end of the financial year (including those held by their spouses and infant children) in shares, debentures, warrants and share options in the Company and in related corporations (other than wholly-owned subsidiaries) are as follows:

	Direct		Deemed		
Name of director and corporation in which interests are held	**Holdings at the beginning of the year**	**Holdings at the end of the year**	**Holdings at the beginning of the year**	**Holdings at the end of the year**	**Holdings at 21 January 2013**
The Company					
Ordinary shares fully paid					
Kris Taenar Wiluan	–	–	225,905,690	231,598,690	231,748,690
Abdulla Mohammed Saleh	–	–	50,751,948	50,751,948	50,751,948

By virtue of Section 7 of the Act, Kris Taenar Wiluan and Abdulla Mohammed Saleh are deemed to have interests in the shares of the Company and all its subsidiaries at the beginning and at the end of the financial year.

Except as disclosed in this report, no director who held office at the end of the financial year had interests in shares, debentures, warrants or share options of the Company, or of related corporations, either at the beginning or at the end of the financial year.

Except as disclosed above, there were no other changes in the interests in the Company between the end of the financial year and 21 January 2013.

Except as disclosed in Note 24 to the accompanying financial statements, neither at the end of, nor at any time during the financial year, was the Company a party to any arrangement whose objects are, or one of whose objects is, to enable the directors of the Company to acquire benefits by means of the acquisition of shares in or debentures of the Company or any other body corporate.

During the financial year, the Company and/or its related corporations have in the normal course of business entered into transactions with parties which are affiliated to the directors, being related parties and parties in which some of the directors are deemed to have an interest, with the directors having disclosed their interests in such transactions pursuant to Section 156 of the Companies Act, Chapter 50. Such transactions may comprise sale and purchase of goods, operating lease arrangements, consultancy services and/or other transactions carried out on normal commercial terms and in the normal course of business of the Company and/or its related corporations. However, the directors have neither received nor become entitled to receive any benefit arising out of these transactions other than those to which they may be entitled as directors and members of these corporations.

Except as disclosed above and for salaries, bonuses and fees and those benefits that are disclosed in this report and in Notes 5 and 26 to the accompanying financial statements, since the end of the last financial year, no director has received or become entitled to receive a benefit by reason of a contract made by the Company or a related corporation with the director, or with a firm of which he is a member, or with a company in which he has a substantial financial interest.

SHARE OPTIONS

The KS Energy Employee Share Option Scheme (the "Scheme") and KS Energy Performance Share Plan (the "Plan") were approved at the Company's Extraordinary General Meeting held on 2 July 2009. The Plan contemplates the award of fully-paid shares to Participants after performance targets have been met and is targeted at key employees who are in the best position to drive the growth of the Company through superior performance while the Scheme is targeted at employees of the Group in general and is meant to be more of a "loyalty" driven time-based incentive scheme. Details of the Scheme and Plan are outlined in the Company's circular dated 16 June 2009.

Both the Scheme and the Plan are administered by the Remuneration Committee (the "Committee"), comprising:

Billy Lee Beng Cheng (Chairman)
Wong Meng Yeng
Lim Ho Seng

Other information regarding the Scheme and the Plan is set out below:

(a) No options have been granted since the commencement of the Scheme and no shares have been issued since the commencement of the Plan.

(b) Subject to the absolute discretion of the Committee, options/shares may be granted, under the Scheme/Plan, to the Group's employees, executive directors and non-executive directors provided that certain criteria are met. Subject to the absolute discretion of the Committee, Controlling Shareholders and their Associates who meet certain criteria are eligible to participate in the Scheme/Plan, provided that the participation of each Controlling Shareholder or his Associate and each grant of an option/a share to any of them may only be effected with the specific prior approval of Shareholders in general meeting by a separate resolution.

(c) The aggregate number of ordinary shares over which options/shares may be granted on any date under the Scheme/Plan, when added to the number of ordinary shares issued and/or issuable in respect of:

- all options granted under the Scheme;
- all contingent award of ordinary shares granted pursuant to the rules of the Plan; and
- all ordinary shares in the capital of the Company, options or awards granted under any other share option or share scheme of the Company then in force;

shall not exceed 15% of the total number of issued ordinary shares, excluding treasury shares, in the capital of the Company on the day preceding the relevant date of grant.

Furthermore, the aggregate number of ordinary shares over which options/shares may be granted under the Scheme/Plan to Controlling Shareholders and their Associates shall not exceed 25% of the ordinary shares available under the Scheme/Plan, and the number of ordinary shares over which options/shares may be granted under the Scheme/Plan to each Controlling Shareholder or his Associate shall not exceed 10% of the ordinary shares available under the Scheme.

(d) The Scheme/Plan shall continue to be in force at the discretion of the Committee, subject to a maximum period of ten years commencing on the date on which the Scheme/Plan is adopted by shareholders of the Company in general meeting, provided that the Scheme/Plan may continue beyond the aforesaid period of time with the approval of shareholders of the Company in general meeting and of any relevant authority which may then be required.

(e) The subscription price of the options shall be fixed by the Committee at its absolute discretion at:

- the Market Price, determined by reference to the price equal to the average of the last dealt prices for a Share, as determined by reference to the daily official list or other publication published by the SGX-ST for five consecutive market days immediately preceding the offer date of that option, rounded up to the nearest whole cent in the event of fractional prices;

- or at a discount to the Market Price, the quantum of such discount to be determined by the Committee at its absolute discretion, provided that the maximum discount shall not exceed 20% of the Market Price and is approved by shareholders of the Company in general meeting in a separate resolution.

(f) Options granted with the Exercise Price set at the Market Price may be exercised at any time after the first anniversary of the date of grant, provided that the option shall be exercised before the tenth anniversary of the date of grant or such earlier date as may be determined by the Committee, failing which the unexercised option shall immediately be null and void.

(g) Options granted with the Exercise Price set at a discount to the Market Price may be exercised at any time after the second anniversary of the date of grant, provided that the option shall be exercised before the tenth anniversary of the date of grant or such earlier date as may be determined by the Committee, failing which the unexercised option shall immediately be null and void.

During the financial year, there were:

(i) no options granted by the Company or its subsidiaries to any person to take up unissued shares in the Company or its subsidiaries; and

(ii) no shares issued by virtue of any exercise of options to take up unissued shares of the Company or its subsidiaries.

As at the end of the financial year, there were no unissued shares of the Company or its subsidiaries under option.

AUDIT COMMITTEE

The members of the Audit Committee during the year and at the date of this report are:

Lim Ho Seng	(Chairman and Lead Independent Director)
Billy Lee Beng Cheng	(Independent Director)
Wong Meng Yeng	(Independent Director)

The Audit Committee performs the functions specified in Section 201B of the Act, the SGX Listing Manual and the Code of Corporate Governance.

The Audit Committee held seven meetings since the last directors' report. In performing its functions, the Audit Committee met with the Company's external and internal auditors to discuss the scope of their work, the results of their examination and evaluation of the Company's internal accounting control system.

The Audit Committee also reviewed the following:

- assistance provided by the Company's officers to the internal and external auditors;
- quarterly financial information and annual financial statements of the Group and the Company prior to their submission to the directors of the Company for adoption; and
- interested person transactions (as defined in Chapter 9 of the SGX Listing Manual).

The Audit Committee has full access to management and is given the resources required for it to discharge its functions. It has full authority and the discretion to invite any director or executive officer to attend its meetings.

COMPLIANCE WITH RULE 1207(10) OF THE LISTING MANUAL OF THE SINGAPORE EXCHANGE SECURITIES TRADING LIMITED

The Company has established a risk identification and management framework. Risks are identified and addressed, with the Board of Directors and senior management personnel of the Company and its subsidiaries taking ownership of these risks. Action plans to manage the risks are continually being monitored by management and the Board of Directors. The internal auditors will review policies and procedures as well as key controls and will highlight any issues to the directors and the Audit Committee.

Based on the framework established, the Board of Directors opines, with the concurrence of the Audit Committee, that there are adequate internal controls in place within the Group addressing significant and critical financial, operational and compliance risks. The Board, together with the Audit Committee and management, will continue to enhance and improve the existing internal control framework to identify and mitigate these risks.

AUDITORS

The Audit Committee has reviewed the level of audit and non-audit fees and is satisfied with the independence and objectivity of the external auditors as required under Section 206 (1A) of the Act and has recommended to the Board of Directors that the auditors, KPMG LLP, be nominated for re-appointment as auditors at the forthcoming Annual General Meeting of the Company.

Directors' Report

In appointing our auditors for the Company, subsidiaries and significant associated companies, we have complied with Rules 712 and 715 of the SGX Listing Manual.

The auditors, KPMG LLP, have indicated their willingness to accept re-appointment.

On behalf of the Board of Directors

Kris Taenar Wiluan
Director

Koh Soo Keong
Director

28 March 2013

Statement by Directors

In our opinion:

(a) the financial statements set out on pages 44 to 127 are drawn up so as to give a true and fair view of the state of affairs of the Group and of the Company as at 31 December 2012 and the results, changes in equity and cash flows of the Group for the year ended on that date in accordance with the provisions of the Singapore Companies Act, Chapter 50 and Singapore Financial Reporting Standards; and

(b) at the date of this statement, there are reasonable grounds to believe that the Company will be able to pay its debts as and when they fall due.

The Board of Directors has, on the date of this statement, authorised these financial statements for issue.

On behalf of the Board of Directors

Kris Taenar Wiluan
Director

Koh Soo Keong
Director

28 March 2013

Independent Auditors' Report

Members of the Company
KS Energy Limited

REPORT ON THE FINANCIAL STATEMENTS

We have audited the accompanying financial statements of KS Energy Limited (the "Company") and its subsidiaries (the "Group"), which comprise the statements of financial position of the Group and of the Company as at 31 December 2012, the income statement, statement of comprehensive income, statement of changes in equity and statement of cash flows of the Group for the year then ended, and a summary of significant accounting policies and other explanatory information, as set out on pages 44 to 127.

Management's responsibility for the financial statements

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, 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 profit and loss accounts and balance sheets and to maintain accountability of assets.

Auditors' responsibility

Our responsibility is to express an opinion on these financial statements based on our audit. We conducted our audit in accordance with Singapore Standards on Auditing. Those standards require that we comply with ethical requirements and plan and perform the audit to obtain reasonable assurance about whether the financial statements are free from material misstatement.

An audit involves performing procedures to obtain audit evidence about the amounts and disclosures in the financial statements. The procedures selected depend on the auditor's judgement, including the assessment of the risks of material misstatement of the financial statements, whether due to fraud or error. In making those risk assessments, the auditor considers internal control relevant to the entity's preparation of the financial statements that give a true and fair view in order to design audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the entity's internal control. An audit also includes evaluating the appropriateness of accounting policies used and the reasonableness of accounting estimates made by management, as well as evaluating the overall presentation of the financial statements.

We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our audit opinion.

Opinion

In our opinion, the consolidated financial statements of the Group and the statement of financial position of the Company are properly drawn up in accordance with the provisions of the Act and Singapore Financial Reporting Standards to give a true and fair view of the state of affairs of the Group and of the Company as at 31 December 2012 and the results, changes in equity and cash flows of the Group for the year ended on that date.

Independent Auditors' Report

REPORT ON OTHER LEGAL AND REGULATORY REQUIREMENTS

In our opinion, the accounting and other records required by the Act to be kept by the Company and by those subsidiaries incorporated in Singapore of which we are the auditors have been properly kept in accordance with the provisions of the Act.

KPMG LLP
Public Accountants and
Certified Public Accountants

Singapore
28 March 2013

Consolidated Income Statement

Year ended 31 December 2012

	Note	Group 2012 $'000	Group 2011 $'000
Revenue	4	698,129	492,738
Cost of sales		(538,217)	(366,329)
Gross profit before direct depreciation		159,912	126,409
Direct depreciation		(30,057)	(17,090)
Gross profit after direct depreciation		129,855	109,319
Other income		15,192	4,425
Distribution costs		(36,532)	(39,374)
Administrative expenses		(41,242)	(42,409)
Other operating expenses		(35,231)	(78,912)
Results from operating activities	5	32,042	(46,951)
Finance income		679	802
Finance costs		(19,121)	(30,345)
Net finance costs	6	(18,442)	(29,543)
Share of results of associates (net of tax)		–	46
Share of results of jointly controlled entities (net of tax)		(482)	(5,095)
Profit/(Loss) before income tax		13,118	(81,543)
Income tax expense	7	(8,013)	(6,116)
Profit/(Loss) for the year		5,105	(87,659)
Profit/(Loss) attributable to:			
Owners of the Company		1,289	(78,757)
Non-controlling interests		3,816	(8,902)
Profit/(Loss) for the year		5,105	(87,659)
Earnings/(Loss) per share:			
Basic earnings/(loss) and diluted earnings/(loss) per share (cents)	8	0.31	(19.19)

The accompanying notes form an integral part of these financial statements.

Consolidated Statement of Comprehensive Income

Year ended 31 December 2012

	2012 $'000	2011 $'000
Profit/(Loss) for the year	5,105	(87,659)
Other comprehensive (expense)/income		
Foreign currency translation differences for foreign operations	(21,403)	10,740
Other comprehensive (expense)/income for the year, net of tax	(21,403)	10,740
Total comprehensive expense for the year	(16,298)	(76,919)
Total comprehensive expense attributable to:		
Owners of the Company	(16,735)	(71,307)
Non-controlling interests	437	(5,612)
Total comprehensive expense for the year	(16,298)	(76,919)

The accompanying notes form an integral part of these financial statements.

Statements of Financial Position

As at 31 December 2012

	Note	Group 2012 $'000	Group 2011 $'000	Company 2012 $'000	Company 2011 $'000
Current assets					
Cash and cash equivalents	9	60,684	58,610	746	2,429
Amounts due from subsidiaries	10	–	–	11,045	10,682
Trade receivables	11	165,441	137,454	–	–
Inventories	12	134,758	120,219	–	–
Other assets	13	110,459	68,563	200	854
		471,342	384,846	11,991	13,965
Non-current assets					
Associates and jointly controlled entities	14	12,535	90,539	24,504	35,417
Subsidiaries	15	–	–	416,834	424,641
Property, plant and equipment	16	389,018	415,698	1,260	1,547
Intangible assets	17	25,139	27,838	–	–
Other assets	13	38,675	306	301	301
		465,367	534,381	442,899	461,906
Total assets		936,709	919,227	454,890	475,871
Current liabilities					
Trade and other payables	18	120,611	114,579	1,932	4,851
Amounts due to subsidiaries	19	–	–	13,313	7,113
Provision for current tax		13,653	7,921	1,017	1,229
Financial liabilities	20	243,698	106,874	111,031	16,634
		377,962	229,374	127,293	29,827
Non-current liabilities					
Trade and other payables	18	3,441	4,952	3,056	3,235
Amounts due to subsidiaries	19	–	–	21,663	22,932
Financial liabilities	20	130,085	239,979	–	100,879
Deferred tax liabilities	21	5,998	6,763	1,330	1,330
		139,524	251,694	26,049	128,376
Total liabilities		517,486	481,068	153,342	158,203
Net assets		419,223	438,159	301,548	317,668
Equity attributable to owners of the Company					
Share capital	22	319,077	319,077	319,077	319,077
Equity reserve	23	22,922	22,922	22,922	22,922
Treasury shares	23	(34,510)	(34,510)	(34,510)	(34,510)
Foreign currency translation reserve	23	(65,506)	(47,482)	–	–
Other reserve	23	(13,989)	(13,989)	–	–
Accumulated profits		41,219	39,930	(5,941)	10,179
		269,213	285,948	301,548	317,668
Non-controlling interests		150,010	152,211	–	–
Total equity		419,223	438,159	301,548	317,668

The accompanying notes form an integral part of these financial statements.

Consolidated Statement of Changes in Equity

Year ended 31 December 2012

Group	Share capital $'000	Equity reserve $'000	Treasury shares $'000	Foreign currency translation reserve $'000	Other reserve $'000	Accumulated profits $'000	Total attributable to owners of the Company $'000	Non-controlling interests $'000	Total equity $'000
At 1 January 2012	319,077	22,922	(34,510)	(47,482)	(13,989)	39,930	285,948	152,211	438,159
Total comprehensive income for the year									
Profit for the year	–	–	–	–	–	1,289	1,289	3,816	5,105
Other comprehensive income/(expense)									
Exchange differences on translation of financial statements of foreign operations, and monetary items which form part of net investment in foreign operations	–	–	–	(18,024)	–	–	(18,024)	(3,379)	(21,403)
Total other comprehensive income/(expense)	–	–	–	(18,024)	–	–	(18,024)	(3,379)	(21,403)
Total comprehensive income/(expense) for the year	–	–	–	(18,024)	–	1,289	(16,735)	437	(16,298)
Transactions with owners of the Company, recognised directly in equity									
Contributions by and distributions to owners of the Company									
Dividends paid to non-controlling interests	–	–	–	–	–	–	–	(2,679)	(2,679)
Contributions by non-controlling interests	–	–	–	–	–	–	–	41	41
Total contributions by and distributions to owners of the Company	–	–	–	–	–	–	–	(2,638)	(2,638)
At 31 December 2012	319,077	22,922	(34,510)	(65,506)	(13,989)	41,219	269,213	150,010	419,223

The accompanying notes form an integral part of these financial statements.

Consolidated Statement of Changes in Equity

Year ended 31 December 2012

Group	Share capital $'000	Equity reserve $'000	Treasury shares $'000	Foreign currency translation reserve $'000	Other reserve $'000	Accumulated profits $'000	Total attributable to owners of the Company $'000	Non-controlling interests $'000	Total equity $'000
At 1 January 2011	319,066	22,923	(34,510)	(54,932)	(13,342)	118,687	357,892	106,854	464,746
Total comprehensive income for the year									
Loss for the year	–	–	–	–	–	(78,757)	(78,757)	(8,902)	(87,659)
Other comprehensive income									
Exchange differences on translation of financial statements of foreign operations, and monetary items which form part of net investment in foreign operations	–	–	–	7,450	–	–	7,450	3,290	10,740
Total other comprehensive income/(expense)	–	–	–	7,450	–	–	7,450	3,290	10,740
Total comprehensive income/(expense) for the year	–	–	–	7,450	–	(78,757)	(71,307)	(5,612)	(76,919)
Transactions with owners of the Company, recognised directly in equity									
Contributions by and distributions to owners of the Company									
Issue of new shares	11	–	–	–	–	–	11	–	11
Dividends paid to non-controlling interests	–	–	–	–	–	–	–	(6,173)	(6,173)
Change in equity reserve due to equity component of warrants	–	(1)	–	–	–	–	(1)	–	(1)
Total contributions by and distributions to owners of the Company	11	(1)	–	–	–	–	10	(6,173)	(6,163)
Changes in ownership interests in subsidiaries									
Return of capital to non-controlling interests	–	–	–	–	–	–	–	(2,000)	(2,000)
Dilution of investment in subsidiary without a loss in control	–	–	–	–	(647)	–	(647)	59,142	58,495
Total changes in ownership interests in subsidiaries	–	–	–	–	(647)	–	(647)	57,142	56,495
At 31 December 2011	319,077	22,922	(34,510)	(47,482)	(13,989)	39,930	285,948	152,211	438,159

The accompanying notes form an integral part of these financial statements.

Consolidated Statement of Cash Flows

Year ended 31 December 2012

	Group 2012 $'000	Group 2011 $'000
Cash flows from operating activities		
Profit/(Loss) before income tax	13,118	(81,543)
Adjustments for:		
Amortisation of intangible assets	2,569	3,010
Fair value gain upon lapse of an option	(10,628)	–
Depreciation of property, plant and equipment	39,642	34,515
Impairment loss on intangible assets	–	4,855
Impairment loss on property, plant and equipment	–	8,507
Loss on disposal of associates	–	44
Impairment loss on non-trade receivables	833	738
(Gain)/Loss on disposal of property, plant and equipment	(38)	363
Gain on liquidation of jointly controlled entities	(96)	(52)
Gain on liquidation of subsidiaries	–	(1,173)
Finance income	(679)	(802)
Finance costs	19,121	30,345
Plant and equipment written off	124	130
Share of results of associates, net of income tax	–	(46)
Share of results of jointly controlled entities, net of income tax	482	5,095
Loss on acquisition of additional interest in a jointly controlled entity	1,434	–
	65,882	3,986
Working capital changes:		
Change in inventories	(14,538)	36,310
Change in trade receivables	(27,706)	4,921
Change in other current assets	(119)	(10,424)
Change in trade and other payables	5,052	3,858
Cash generated from operating activities	28,571	38,651
Income taxes paid	(3,006)	(8,887)
Net cash from operating activities	25,565	29,764

The accompanying notes form an integral part of these financial statements.

Consolidated Statement of Cash Flows

Year ended 31 December 2012

	Note	Group 2012 $'000	Group 2011 $'000
Cash flows from investing activities			
Loans to jointly controlled entities		76,231	(4,033)
Non-trade receivables with associate, jointly controlled entities and related parties		(81,184)	16,902
Dividends received from associates and jointly controlled entities		–	4,000
Interest received		679	411
Net cash inflow/(outflow) on acquisition of subsidiaries	25	122	(5,908)
Payments for purchase of property, plant and equipment		(33,482)	(93,381)
Payments for purchase of intangible assets		(181)	(436)
Payments for investment in associates and jointly controlled entities		(456)	–
Proceeds from dilution of interests in subsidiaries (net)	25	–	58,851
Proceeds from disposal of property, plant and equipment		326	161
Net cash used in investing activities		(37,945)	(23,433)
Cash flows from financing activities			
Non-trade payables with related parties		(1,948)	(313)
Proceeds from bills payable		104,846	52,819
Repayment of bills payable		(90,111)	(54,017)
Increase in deposits pledged		(4,596)	(3,392)
Dividends paid to non-controlling interests of subsidiaries		(2,679)	(6,173)
Interest paid		(11,992)	(9,800)
Repayment of finance lease liabilities		(175)	(257)
Proceeds from bank loans		134,584	160,441
Repayment of bank loans		(116,328)	(140,437)
Proceeds from issue of warrants		–	(1)
Proceeds from issue of new shares		–	16,211
Return of capital to non-controlling interests		–	(1,500)
Net cash generated from financing activities		11,601	13,581
Net (decrease)/increase in cash and cash equivalents		(779)	19,912
Cash and cash equivalents at beginning of the year		49,392	29,226
Effect of exchange rate fluctuations on cash held in foreign currencies		(1,743)	254
Cash and cash equivalents at end of the year	9	46,870	49,392

The accompanying notes form an integral part of these financial statements.

Notes to the Financial Statements

Year ended 31 December 2012

These notes form an integral part of the financial statements.

The financial statements were authorised for issue by the Board of Directors on 28 March 2013 .

1 DOMICILE AND ACTIVITIES

KS Energy Limited (the "Company") is incorporated in the Republic of Singapore and has its registered office at No. 19 Jurong Port Road, Singapore 619093.

The principal activities of the Company are those of trading in hydraulic products, instrumentation and equipment for the shipbuilding, marine and oil and gas industries, commission agents, trading in hardware products and oilfield equipment, and investment holding. The principal activities of the subsidiaries are set out in Note 15 to the financial statements.

The financial statements of the Company as at and for the year ended 31 December 2012 comprise the Company and its subsidiaries (together referred to as the "Group" and individually as "Group entities") and the Group's interests in associates and jointly controlled entities.

2 BASIS OF PREPARATION

2.1 Statement of compliance

The financial statements have been prepared in accordance with Singapore Financial Reporting Standards ("FRS").

2.2 Basis of measurement

The financial statements have been prepared on the historical cost basis except as otherwise stated below.

2.3 Functional and presentation currency

Items included in the financial statements of each entity in the Group are measured using the currency that best reflects the economic substance of the underlying transactions, events and conditions relevant to that entity (the "functional currency").

These financial statements are presented in Singapore dollars, which is the Company's functional currency. All financial information presented in Singapore dollars has been rounded to the nearest thousand, unless otherwise stated.

2.4 Use of estimates and judgements

The preparation of financial statements in conformity with FRSs requires management to make judgements, estimates and assumptions that affect the application of accounting policies and the reported amounts of assets, liabilities, income and expenses. Actual results may differ from these estimates.

Estimates and underlying assumptions are reviewed on an ongoing basis. Revisions to accounting estimates are recognised in the period in which the estimates are revised and in any future periods affected.

2 BASIS OF PREPARATION (CONTINUED)

2.4 Use of estimates and judgements (Continued)

In particular, the information about significant areas of estimation uncertainty and critical judgements in applying accounting policies that have the most significant effect on the amount recognised in the financial statements and that have a significant risk or resulting in a material adjustment within the next financial year are described in the following notes:

- Note 7 – estimation of provisions for current and deferred taxation
- Note 12 – assessment of the allowance for inventory obsolescence or slow-moving inventories or for any shortfall in net realisable value of inventories
- Note 14 – assumptions of recoverable amounts relating to interests in associates and jointly controlled entities
- Note 15 – assumptions of recoverable amounts relating to investments in and loans to subsidiaries
- Note 16 – depreciation and assumptions of recoverable amounts relating to property, plant and equipment
- Note 17 – assumptions of recoverable amounts relating to goodwill and other intangible assets
- Note 27 – assessment of the recoverability of trade receivables

2.5 Changes in accounting policies

Starting as of 1 January 2012, the Group adopted various new/revised FRSs and improvements to FRSs. The adoption of these new/revised FRSs and improvements to FRS did not have any impact on the Group's financial statements.

3 SIGNIFICANT ACCOUNTING POLICIES

The accounting policies set out below have been applied consistently to all periods presented in these financial statements, and have been applied consistently by Group entities, except as explained in Note 2.5, which addresses changes in accounting policies.

3.1 Basis of consolidation

Business combinations

Business combinations are accounted for using the acquisition method as at the acquisition date, which is the date on which control is transferred to the Group. Control is the power to govern the financial and operating policies of an entity so as to obtain benefits from its activities. In assessing control, the Group takes into consideration potential voting rights that are currently exercisable.

The consideration transferred does not include amounts related to the settlement of pre-existing relationships. Such amounts are generally recognised in profit or loss.

Costs related to the acquisition, other than those associated with the issue of debt or equity securities, that the Group incurs in connection with a business combination are expensed as incurred.

3 SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

3.1 Basis of consolidation (Continued)

Business combinations (Continued)

Any contingent consideration payable is recognised at fair value at the acquisition date. If the contingent consideration is classified as equity, it is not remeasured and settlement is accounted for within equity. Otherwise, subsequent changes to the fair value of the contingent consideration are recognised in profit or loss.

For non-controlling interests that are present ownership interests and entitle their holders to a proportionate share of the acquiree's net assets in the event of liquidation, the Group elects on a transaction-by-transaction basis whether to measure them at fair value, or at the non-controlling interests' proportionate share of the recognised amounts of the acquiree's identifiable net assets, at the acquisition date. All other non-controlling interests are measured at acquisition-date fair value or, when applicable, on the basis specified in another standard.

When share-based payment awards (replacement awards) are exchanged for awards held by the acquiree's employees (acquiree's awards) and relate to past services, then all or a portion of the amount of the acquirer's replacement awards is included in measuring the consideration transferred in the business combination. This determination is based on the market-based value of the replacement awards compared with the market-based value of the acquiree's awards and the extent to which the replacement awards relate to past and/or future service.

Acquisitions from entities under common control

Business combinations arising from transfers of interests in entities that are under the control of the shareholder that controls the Group are accounted for as if the acquisition had occurred at the beginning of the earliest comparative period presented or, if later, at the date that common control was established; for this purpose, comparatives are restated. The assets and liabilities acquired are recognised at the carrying amounts recognised previously in the Group's controlling shareholder's consolidated financial statements. The components of equity of the acquired entities are added to the same components within Group equity and any gain/loss arising is recognised directly in equity.

Subsidiaries

Subsidiaries are entities controlled by the Group. The financial statements of subsidiaries are included in the consolidated financial statements from the date that control commences until the date that control ceases.

The accounting policies of subsidiaries have been changed when necessary to align them with the policies adopted by the Group. Losses applicable to the non-controlling interests in a subsidiary are allocated to the non-controlling interests even if doing so causes the non-controlling interests to have a deficit balance.

Loss of control

Upon the loss of control, the Group derecognises the assets and liabilities of the subsidiary, any non-controlling interests and the other components of equity related to the subsidiary. Any surplus or deficit arising on the loss of control is recognised in profit or loss. If the Group retains any interest in the previous subsidiary, then such interest is measured at fair value at the date that control is lost. Subsequently, it is accounted for as an equity-accounted investee or as an available-for-sale financial asset depending on the level of influence retained.

3 SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

3.1 Basis of consolidation (Continued)

Investments in associates and jointly controlled entities (equity-accounted investees)

Associates are those entities in which the Group has significant influence, but not control, over their financial and operating policies of these entities. Significant influence is presumed to exist when the Group holds between 20% and 50% of the voting power of another entity. Jointly controlled entities are those entities over whose activities the Group has joint control, established by contractual agreements and requiring unanimous consent for strategic financial and operating decisions.

Investments in associates and jointly controlled entities (collectively referred to as "equity accounted investees") are accounted for using the equity method and are recognised initially at cost. The cost of the investments includes transaction costs.

The consolidated financial statements include the Group's share of the profit or loss and other comprehensive income of the equity accounted investees, after adjustments to align the accounting policies with those of the Group, from the date that significant influence or joint control commences until the date that significant influence or joint control ceases.

When the Group's share of losses exceeds its interest in an equity accounted investee, the carrying amount of that interest, including any long-term investments, is reduced to zero, and the recognition of further losses is discontinued except to the extent that the Group has an obligation or has made payments on behalf of the investee.

Acquisitions of non-controlling interests

Acquisitions of non-controlling interests are accounted for as transactions with owners in their capacity as owners and therefore the carrying amounts of assets and liabilities are not changed and goodwill is not recognised as a result of such transactions. The adjustments to non-controlling interests are based on a proportionate amount of the net assets of the subsidiary. Any difference between the adjustment to non-controlling interests and the fair value of consideration paid is recognised directly in equity and presented as part of equity attributable to owners of the Company.

Transactions eliminated on consolidation

Intra-group balances and transactions, and any unrealised income and expenses arising from intra-group transactions, are eliminated in preparing the consolidated financial statements. Unrealised gains arising from transactions with equity-accounted investees are eliminated against the investment to the extent of the Group's interest in the investee. Unrealised losses are eliminated in the same way as unrealised gains, but only to the extent that there is no evidence of impairment.

Accounting for subsidiaries, associates and jointly controlled entities by the Company

Investments in subsidiaries, associates and jointly controlled entities are stated in the Company's statement of financial position at cost less accumulated impairment losses.

3 SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

3.2 Foreign currency

Foreign currency transactions

Transactions in foreign currencies are translated to the respective functional currencies of Group entities at exchange rates at the dates of the transactions. Monetary assets and liabilities denominated in foreign currencies at the end of the reporting period are retranslated to the functional currency at the exchange rate at that date. The foreign currency gain or loss on monetary items is the difference between amortised cost in the functional currency at the beginning of the period, adjusted for effective interest and payments during the year, and the amortised cost in foreign currency translated at the exchange rate at the end of the year.

Non-monetary assets and liabilities denominated in foreign currencies that are measured at fair value are retranslated to the functional currency at the exchange rate at the date on which the fair value was determined. Non-monetary items in a foreign currency that are measured in terms of historical cost in a foreign currency are translated using the exchange rate at the date of the transaction. Foreign currency differences arising on retranslation are recognised in profit or loss, except for differences arising on the retranslation of:

- a financial liability designated as a hedge of the net investment in a foreign operation to the extent that the hedge is effective; or
- qualifying cash flow hedges to the extent the hedge is effective.

Foreign operations

The assets and liabilities of foreign operations, excluding goodwill and fair value adjustments arising on acquisition, are translated to Singapore dollars at exchange rates at the end of the reporting period. The income and expenses of foreign operations are translated to Singapore dollars at exchange rates at the dates of the transactions. Goodwill and fair value adjustments arising on the acquisition of a foreign operation on or after 1 January 2005 are treated as assets and liabilities of the foreign operation and translated at the closing rate. For acquisitions prior to 1 January 2005, the exchange rates at the date of acquisition were used.

Foreign currency differences are recognised in other comprehensive income, and presented in the foreign currency translation reserve (translation reserve) in equity. However, if the foreign operation is a non-wholly-owned subsidiary, then the relevant proportionate share of the translation difference is allocated to the non-controlling interests. When a foreign operation is disposed of such that control, significant influence or joint control is lost, the cumulative amount in the translation reserve related to that foreign operation is reclassified to profit or loss as part of the gain or loss on disposal. When the Group disposes of only part of its interest in a subsidiary that includes a foreign operation while retaining control, the relevant proportion of the cumulative amount is reattributed to non-controlling interests. When the Group disposes of only part of its investment in an associate or joint venture that includes a foreign operation while retaining significant influence or joint control, the relevant proportion of the cumulative amount is reclassified to profit or loss.

When the settlement of a monetary item receivable from or payable to a foreign operation is neither planned nor likely in the foreseeable future, foreign exchange gains and losses arising from such a monetary item are considered to form part of a net investment in a foreign operation and are recognised in other comprehensive income, and are presented in the translation reserve in equity.

3 SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

3.3 Property, plant and equipment

Recognition and measurement

Items of property, plant and equipment are stated at cost less accumulated depreciation and accumulated impairment losses.

Cost includes expenditure that is directly attributable to the acquisition of the asset. The cost of self-constructed assets includes:

- the cost of materials and direct labour;
- any other costs directly attributable to bringing the asset to a working condition for its intended use;
- when the Group has an obligation to remove the asset or restore the site, an estimate of the cost of dismantling and removing the items and restoring the site on which they are located; and
- capitalised borrowing costs.

Cost may also include transfers from equity of any gain or loss on qualifying cash flow hedges of foreign currency purchases of property, plant and equipment. Purchased software that is integral to the functionality of the related equipment is capitalised as part of that equipment.

When parts of an item of property, plant and equipment have different useful lives, they are accounted for as separate items (major components) of property, plant and equipment.

Leased assets

Leases in terms of which the Group assumes substantially all the risks and rewards of ownership are classified as finance leases. Upon initial recognition, the leased asset is measured at an amount equal to the lower of its fair value and the present value of the minimum lease payments. Subsequent to initial recognition, the asset is accounted for in accordance with the accounting policy applicable to that asset. Leased assets are depreciated over the shorter of the lease term and their useful lives unless it is reasonably certain that the Group will obtain ownership by the end of the lease term.

Subsequent costs

The cost of replacing a component of an item of property, plant and equipment is recognised in the carrying amount of the item if it is probable that the future economic benefits embodied within the part will flow to the Group, and its cost can be measured reliably. The carrying amount of the replaced component is derecognised. The costs of the day-to-day servicing of property, plant and equipment are recognised in profit or loss as incurred.

Disposals

Gain or loss arising on disposal of an item of property, plant and equipment is determined by comparing the proceeds from disposal with the carrying amount of property, plant and equipment, and is recognised net within other income/other operating expenses in profit or loss on the date of disposal.

3 SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

3.3 Property, plant and equipment (Continued)

Depreciation

Depreciation is calculated over the depreciable amount, which is the cost of an asset, or other amount substituted for cost, less its residual value. Significant components of individual assets are assessed and if a component has a useful life that is different from the remainder of that asset, the component is depreciated separately.

No depreciation is provided on assets under construction. Depreciation on other property, plant and equipment is recognised in profit or loss on a straight-line basis over the estimated useful lives of each component of an item of property, plant and equipment. Leased assets are depreciated over the shorter of the lease term and their useful lives unless it is reasonably certain that the Group will obtain ownership by the end of the lease term.

Depreciation is recognised from the date that the property, plant and equipment are installed and are ready for use, or in respect of internally constructed assets, from the date that the asset is completed and ready for use.

The estimated useful lives are as follows:

–	Leasehold properties	Remaining lease terms ranging from 3 to 16 years
–	Plant and machinery	3 to 10 years
–	Rigs and vessels	10 to 30 years
–	Renovation, furniture and fittings	2 to 10 years
–	Office equipment	1 to 8 years
–	Motor vehicles	3 to 10 years

Dry docking cost is considered a separate component of the rig and is separately depreciated over the period between dry dockings, or from acquisition until the next dry docking.

Depreciation methods, useful lives and residual values are reviewed at the end of each reporting period, and adjusted if appropriate.

During the year, management reassessed the useful lives of rigs and vessels based on their respective working conditions and as a result, extended the useful life of a rig with carrying amount of $22,198,000 as at 1 January 2012 from 10 years to 15 years and shortened the useful life of a rig with carrying amount of $117,700,000 as at 1 January 2012 from 20 years to 15 years.

Management has also revised the estimated residual values of the rigs and vessels from a range of 0% – 5% to 4% – 8% of the cost of rigs and vessels. The new estimates were determined by independent professional valuers.

The effect of these changes on depreciation expense in current and future years is as follows:

	Per year $'000
Effect of changes in useful lives	2,637
Effect of changes in residual values	(1,244)
Increase in depreciation expense	1,393

3 SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

3.4 Intangible assets

Goodwill

Goodwill represents the excess of:

- the fair value of the consideration transferred; plus
- the recognised amount of any non-controlling interests in the acquiree; plus
- if the business combination is achieved in stages, the fair value of the existing equity interest in the acquiree,

over the net recognised amount (generally fair value) of the identifiable assets acquired and liabilities assumed.

When the excess is negative, a bargain purchase gain is recognised immediately in profit or loss.

Subsequent measurement

Goodwill is measured at cost less accumulated impairment losses. In respect of equity-accounted investees, the carrying amount of goodwill is included in the carrying amount of the investment, and an impairment loss on such an investment is not allocated to any asset, including goodwill, that forms part of the carrying amount of the equity-accounted investee.

Acquisitions occurring between 1 January 2001 and 1 January 2005

Goodwill represents the excess of the cost of the acquisition over the Group's interest in the net fair value of the identifiable assets and liabilities of the acquiree.

Goodwill was stated at cost from the date of initial recognition and amortised over its estimated useful life of 20 years. On 1 January 2005, the Group discontinued amortisation of this goodwill. This remaining goodwill balance is subject to testing for impairment, as described in Note 3.7.

Negative goodwill was derecognised by crediting accumulated profit on 1 January 2005.

Acquisitions between 1 January 2005 and 1 January 2010

Goodwill represents the excess of the cost of the acquisition over the Group's interest in the net fair value of the identifiable assets, liabilities and contingent liabilities of the acquiree.

Goodwill is measured at cost less accumulated impairment losses. Goodwill is tested for impairment as described in Note 3.7. Negative goodwill is recognised immediately in profit or loss.

Other intangible assets

Other intangible assets that are acquired by the Group, which have finite useful lives, are measured at cost less accumulated amortisation and accumulated impairment losses.

Subsequent expenditure

Subsequent expenditure is capitalised only when it increases the future economic benefits embodied in the specific asset to which it relates. All other expenditure, including expenditure on internally generated goodwill and brands, is recognised in profit or loss as incurred.

3 SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

3.4 Intangible assets (Continued)

Amortisation

Amortisation is calculated based on the cost of the asset, less its residual value.

Amortisation is recognised in profit or loss on a straight-line basis over the estimated useful lives of intangible assets, other than goodwill, from the date that they are available for use. The estimated useful lives for the current and comparative periods are as follows:

Computer software	3 years
Customer lists	10 years
Trade name	15 years
Distribution agreements	10 years
Other intangible assets	2 to 15 years

Amortisation methods, useful lives and residual values are reviewed at the end of each reporting period and adjusted if appropriate.

3.5 Financial instruments

Non-derivative financial assets

The Group initially recognises loans and receivables and deposits on the date that they are originated. All other financial assets (including assets designated at fair value through profit or loss) are recognised initially on the trade date at which the Group becomes a party to the contractual provisions of the instrument.

The Group derecognises a financial asset when the contractual rights to the cash flows from the asset expire, or it transfers the rights to receive the contractual cash flows on the financial asset in a transaction in which substantially all the risks and rewards of ownership of the financial asset are transferred. Any interest in transferred financial assets that is created or retained by the Group is recognised as a separate asset or liability.

Financial assets and liabilities are offset and the net amount presented in the statement of financial position when, and only when, the Group has a legal right to offset the amounts and intends either to settle on a net basis or to realise the asset and settle the liability simultaneously.

The Group has the following non-derivative financial assets: loans and receivables.

Loans and receivables

Loans and receivables are financial assets with fixed or determinable payments that are not quoted in an active market. Such assets are recognised initially at fair value plus any directly attributable transaction costs. Subsequent to initial recognition, loans and receivables are measured at amortised cost using the effective interest rate method, less any impairment losses.

Loans and receivables comprise cash and cash equivalents, trade and other receivables, excluding advances and prepayments.

Cash and cash equivalents

Cash and cash equivalents comprise cash balances and call deposits with original maturities of three months or less. For the purpose of statement of cash flows, pledged deposits are excluded whilst bank overdrafts that are repayable on demand and that form an integral part of the Group's cash management are included in cash and cash equivalents.

3 SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

3.5 Financial instruments (Continued)

Non-derivative financial liabilities

The Group initially recognises debt securities issued and subordinated liabilities on the date that they are originated. Financial liabilities for contingent consideration payable in a business combination are recognised at the acquisition date. All other financial liabilities (including liabilities designated at fair value through profit or loss) are recognised initially on the trade date at which the Group becomes a party to the contractual provisions of the instrument.

The Group derecognises a financial liability when its contractual obligations are discharged, cancelled or expire.

Financial assets and liabilities are offset and the net amount presented in the statement of financial position when, and only when, the Group has a legal right to offset the amounts and intends either to settle on a net basis or to realise the asset and settle the liability simultaneously.

The Group has the following non-derivative financial liabilities: loans and borrowings, trade and other payables, excluding deferred income and advances from customers.

Such financial liabilities are recognised initially at fair value plus any directly attributable transaction costs. Subsequent to initial recognition, these financial liabilities are measured at amortised cost using the effective interest rate method.

Share capital

Ordinary shares

Ordinary shares are classified as equity. Incremental costs directly attributable to the issue of ordinary shares and share options are recognised as a deduction from equity, net of any tax effects.

Repurchase, disposal and reissue of share capital (treasury shares)

When share capital recognised as equity is repurchased, the amount of the consideration paid, which includes directly attributable costs, net of any tax effects, is recognised as a deduction from equity. Repurchased shares are classified as treasury shares and are presented as a deduction from total equity. When treasury shares are sold or reissued subsequently, the amount received is recognised as an increase in equity, and the resulting surplus or deficit on the transaction is presented in non-distributable capital reserve.

Compound financial instruments

Compound financial instruments issued by the Group comprise convertible bonds denominated in Singapore dollars that can be converted to share capital at the option of the holder, where the number of shares to be issued does not vary with changes in their fair value.

The liability component of a compound financial instrument is recognised initially at the fair value of a similar liability that does not have an equity conversion option. The equity component is recognised initially at the difference between the fair value of the compound financial instrument as a whole and the fair value of the liability component. Any directly attributable transaction costs are allocated to the liability and equity components in proportion to their initial carrying amounts.

3 SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

3.5 Financial instruments (Continued)

Compound financial instruments (Continued)

Subsequent to initial recognition, the liability component of a compound financial instrument is measured at amortised cost using the effective interest rate method. The equity component of a compound financial instrument is not remeasured subsequent to initial recognition.

Interest, dividends, losses and gains relating to the financial liability are recognised in profit or loss. On conversion, the financial liability is reclassified to equity; no gain or loss is recognised on conversion.

Derivative financial instruments

The Group holds derivative financial instruments (primarily foreign currency forward contracts and interest rate swap) to hedge its risks associated with foreign currency fluctuations relating to certain firm commitments and forecasted transactions as well as interest rate risks relating to certain bank loans respectively.

The use of financial derivatives is governed by the Group's policies approved by the board of directors, which provide written principles on the use of financial derivatives consistent with the Group's risk management strategy. The Group does not trade derivative financial instruments for speculative purposes.

Embedded derivatives are separated from the host contract and accounted for separately if the economic characteristics and risks of the host contract and the embedded derivative are not closely related, a separate instrument with the same terms as the embedded derivative would meet the definition of a derivative, and the combined instrument is not measured at fair value through profit or loss.

Derivatives are recognised initially at fair value, and attributable transaction costs are recognised in profit or loss as incurred. Subsequent to initial recognition, derivatives are measured at fair value, and changes therein are recognised immediately in profit and loss.

Intra-group financial guarantees

Financial guarantees are financial instruments issued by the Group that requires the issuer to make specified payments to reimburse the holder for the loss it incurs because a specified debtor fails to meet payment when due in accordance with the original or modified terms of a debt instrument.

Intra-group financial guarantees are accounted for in the Company's financial statements as insurance contracts. A provision is recognised based on the Company's estimate of the ultimate cost of settling all claims incurred but unpaid at the reporting date. The provision is assessed by reviewing individual claims and tested for adequacy by comparing the amount recognised and the amount that would be required to settle the guarantee contract.

3 SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

3.6 Inventories

Inventories held for trading

Inventories are stated at the lower of cost and net realisable value. The cost of inventories is calculated using the weighted average cost formula and comprises all costs of purchase, costs of conversion and other costs incurred in bringing the inventories to their present location and condition. In the case of manufactured inventories and work-in-progress, cost includes an appropriate share of production overheads based on normal operating capacity. Net realisable value is the estimated selling price in the ordinary course of business, less the estimated costs of completion and selling expenses. A write-down on cost is made when the cost is not recoverable or if the selling prices have declined below cost.

3.7 Impairment

Non-derivative financial assets

A financial asset not carried at fair value through profit or loss is assessed at the end of each reporting period to determine whether there is objective evidence that it is impaired. A financial asset is impaired if objective evidence indicates that a loss event has occurred after the initial recognition of the asset, and that the loss event had a negative effect on the estimated future cash flows of that asset that can be estimated reliably.

Objective evidence that financial assets are impaired can include default or delinquency by a debtor, restructuring of an amount due to the Group on terms that the Group would not consider otherwise, indications that a debtor or issuer will enter bankruptcy, adverse changes in the payment status of borrowers or issuers in the Group, economic conditions that correlate with defaults or the disappearance of an active market for a security.

Loan and receivables

The Group considers evidence of impairment for loans and receivables at both a specific asset and collective level. All individually significant loans and receivables are assessed for specific impairment. All individually significant receivables found not to be specifically impaired are then collectively assessed for any impairment that has been incurred but not yet identified. Loans and receivables that are not individually significant are collectively assessed for impairment by grouping together loans and receivables with similar risk characteristics.

In assessing collective impairment, the Group uses historical trends of the probability of default, the timing of recoveries and the amount of loss incurred, adjusted for management's judgement as to whether current economic and credit conditions are such that the actual losses are likely to be greater or less than suggested by historical trends.

An impairment loss in respect of a financial asset measured at amortised cost is calculated as the difference between its carrying amount and the present value of the estimated future cash flows, discounted at the asset's original effective interest rate. Losses are recognised in profit or loss and reflected in an allowance account against loans and receivables. Interest on the impaired asset continues to be recognised. When a subsequent event (e.g. repayment by a debtor) causes the amount of impairment loss to decrease, the decrease in impairment loss is reversed through profit or loss.

3 SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

3.7 Impairment (Continued)

Non-financial assets

The carrying amounts of the Group's non-financial assets are reviewed at each reporting date to determine whether there is any indication of impairment. If any such indication exists, then the asset's recoverable amount is estimated. For goodwill and intangible assets that have indefinite useful lives or that are not yet available for use, the recoverable amount is estimated each year at the same time. An impairment loss is recognised if the carrying amount of an asset or its related cash-generating unit (CGU) exceeds its estimated recoverable amount.

The recoverable amount of an asset or cash-generating unit is the greater of its value in use and its fair value less costs to sell. In assessing value in use, the estimated future cash flows are discounted to their present value using a pre-tax discount rate that reflects current market assessments of the time value of money and the risks specific to the asset or cash-generating unit. For the purpose of impairment testing, assets that cannot be tested individually are grouped together into the smallest group of assets that generates cash inflows from continuing use that are largely independent of the cash inflows of other assets or groups of assets (the "cash-generating unit, or CGU"). Subject to an operating segment ceiling test, for the purposes of goodwill impairment testing, CGUs to which goodwill has been allocated are aggregated so that the level at which impairment is tested reflects the lowest level at which goodwill is monitored for internal reporting purposes. Goodwill acquired in a business combination is allocated to groups of CGUs that are expected to benefit from the synergies of the combination.

The Group's corporate assets do not generate separate cash inflows and are utilised by more than one CGU. Corporate assets are allocated to CGUs on a reasonable and consistent basis and tested for impairment as part of the testing of the CGU to which the corporate asset is allocated.

Impairment losses are recognised in profit or loss. Impairment losses recognised in respect of CGUs are allocated first to reduce the carrying amount of any goodwill allocated to the CGU (group of CGUs), and then to reduce the carrying amounts of the other assets in the CGU (group of CGUs) on a *pro rata* basis.

An impairment loss in respect of goodwill is not reversed. In respect of other assets, impairment losses recognised in prior periods are assessed at each reporting date for any indications that the loss has decreased or no longer exists. An impairment loss is reversed if there has been a change in the estimates used to determine the recoverable amount. An impairment loss is reversed only to the extent that the asset's carrying amount does not exceed the carrying amount that would have been determined, net of depreciation or amortisation, if no impairment loss had been recognised.

Goodwill that forms part of the carrying amount of an investment in an associate is not recognised separately, and therefore is not tested for impairment separately. Instead, the entire amount of the investment in an associate is tested for impairment as a single asset when there is objective evidence that the investment in an associate may be impaired.

3 SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

3.8 Employee benefits

Defined contribution plans

A defined contribution plan is a post-employment benefit plan under which an entity pays fixed contributions into a separate entity and will have no legal or constructive obligation to pay further amounts. Obligations for contributions to defined contribution pension plans are recognised as an employee benefit expense in profit or loss in the periods during which services are rendered by employees.

Short-term employee benefits

Short-term employee benefit obligations are measured on an undiscounted basis and are expensed as the related service is provided. A provision is recognised for the amount expected to be paid under short-term cash bonus or profit-sharing plans if the Group has a present legal or constructive obligation to pay this amount as a result of past service provided by the employee and the obligation can be estimated reliably.

Share-based payment transactions

The grant date fair value of share-based payment awards granted to employees is recognised as an employee expense, with a corresponding increase in equity, over the period that the employees unconditionally become entitled to the awards. The amount recognised as an expense is adjusted to reflect the number of awards for which the related service and non-market vesting conditions are expected to be met, such that the amount ultimately recognised as an expense is based on the number of awards that meet the related service and non-market performance conditions at the vesting date. For share-based payment awards with non-vesting conditions, the grant date fair value of the share-based payment is measured to reflect such conditions and there is no true-up for differences between expected and actual outcomes.

The fair value of the amount payable to employees in respect of share appreciation rights, which are settled in cash, is recognised as an expense with a corresponding increase in liabilities, over the period that the employees unconditionally become entitled to payment. The liability is remeasured at each reporting date and at settlement date. Any changes in the fair value of the liability are recognised as employee benefits expense in profit or loss.

3.9 Provisions

A provision is recognised if, as a result of a past event, the Group has a present legal or constructive obligation that can be estimated reliably, and it is probable that an outflow of economic benefits will be required to settle the obligation. Provisions are determined by discounting the expected future cash flows at a pre-tax rate that reflects current market assessments of the time value of money and the risks specific to the liability. The unwinding of the discount is recognised as finance cost.

3 SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

3.10 Revenue

Sale of goods

Revenue from the sale of goods in the course of ordinary activities is measured at the fair value of the consideration received or receivable, net of returns and allowances, trade discounts and volume rebates. Revenue is recognised when persuasive evidence exists, usually in the form of an executed sales agreement, that the significant risks and rewards of ownership have been transferred to the customer, recovery of the consideration is probable, the associated costs and possible return of goods can be estimated reliably, there is no continuing management involvement with the goods, and the amount of revenue can be measured reliably. If it is probable that discounts will be granted and the amount can be measured reliably, then the discount is recognised as a reduction of revenue as the sales are recognised.

Rental income

Revenue from day rate based compensation for operations of rigs are recognised based upon contracted day rates and the number of operating days during the period in which the services are rendered.

Rendering of services

Revenue from rendering of services is recognised when the related services have been rendered.

Mobilisation fees are recognised over the estimated duration of the contract. Incremental cost of mobilisation is deferred and recognised over the estimated duration of the contracts. To the extent that cost exceeds revenue, it is expensed as incurred.

Commission income

When the Group acts in the capacity of an agent rather than as the principal in a transaction, the revenue recognised is the net amount of commission earned by the Group.

Dividend income

Dividend income is recognised on the date that the Group's right to receive payment is established, which in the case of quoted securities is the ex-dividend date.

3.11 Lease payments

Payments made under operating leases are recognised in profit or loss on a straight-line basis over the term of the lease. Lease incentives received are recognised in profit or loss as an integral part of the total lease payments made.

Minimum lease payments made under finance leases are apportioned between finance expense and reduction of the lease liability. The finance expense is allocated to each period during the lease term so as to produce a constant periodic rate of interest on the remaining balance of the liability.

3 SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

3.11 Lease payments (Continued)

Determining whether an arrangement contains a lease

At inception of an arrangement, the Group determines whether such an arrangement is or contains a lease. This will be the case if the following two criteria are met:

- the fulfilment of the arrangement is dependent on the use of a specific asset or assets; and
- the arrangement contains a right to use the asset(s).

At inception or upon reassessment of the arrangement, the Group separates payments and other consideration required by such an arrangement into those for the lease and those for other elements on the basis of their relative fair values. If the Group concludes for a finance lease that it is impracticable to separate the payments reliably, then an asset and a liability are recognised at an amount equal to the fair value of the underlying asset. Subsequently, the liability is reduced as payments are made and an imputed finance charge on the liability is recognised using the Group's incremental borrowing rate.

3.12 Finance income and finance costs

Finance income comprises interest income on fixed and cash deposits with banks, interest income on loans and receivables and mark to market gains on derivative financial instruments. Interest income is recognised as it accrues in profit or loss, using the effective interest method.

Finance costs comprise interest expense on borrowings, unwinding of the discount and transaction costs on convertible bonds and fair value losses on derivative financial instruments that are recognised in profit or loss. All borrowing costs are recognised in profit or loss using the effective interest rate method, except to the extent that they are capitalised as being directly attributable to the acquisition, construction or production of an asset which necessarily takes a substantial period of time to be prepared for its intended use or sale.

3.13 Income tax

Income tax expense comprises current and deferred tax. Current tax and deferred tax are recognised in profit or loss except to the extent that it relates to a business combination, or items recognised directly in equity or in other comprehensive income.

Current tax is the expected tax payable or receivable on the taxable income or loss for the year, using tax rates enacted or substantively enacted at the reporting date, and any adjustment to tax payable in respect of previous years.

Deferred tax is recognised in respect of temporary differences between the carrying amounts of assets and liabilities for financial reporting purposes and the amounts used for taxation purposes.

Deferred tax is not recognised for:

- temporary differences on the initial recognition of assets or liabilities in a transaction that is not a business combination and that affects neither accounting nor taxable profit or loss;
- temporary differences related to investments in subsidiaries and jointly controlled entities to the extent that the Group is able to control the timing of the reversal of the temporary difference and it is probable that they will not reverse in the foreseeable future; and
- taxable temporary differences arising on the initial recognition of goodwill.

3 SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

3.13 Income tax (Continued)

The measurement of deferred taxes reflects the tax consequences that would follow the manner in which the Group expects, at the end of the reporting period, to recover or settle the carrying amount of its assets and liabilities. Deferred tax is measured at the tax rates that are expected to be applied to temporary differences when they reverse, based on the laws that have been enacted or substantively enacted by the reporting date.

Deferred tax assets and liabilities are offset if there is a legally enforceable right to offset current tax liabilities and assets, and they relate to income taxes levied by the same tax authority on the same taxable entity, or on different tax entities, but they intend to settle current tax liabilities and assets on a net basis or their tax assets and liabilities will be realised simultaneously.

A deferred tax asset is recognised for unused tax losses, tax credits and deductible temporary differences, to the extent that it is probable that future taxable profits will be available against which they can be utilised. Deferred tax assets are reviewed at each reporting date and are reduced to the extent that it is no longer probable that the related tax benefit will be realised.

In determining the amount of current and deferred tax, the Group takes into account the impact of uncertain tax positions and whether additional taxes and interest may be due. The Group believes that its accruals for tax liabilities are adequate for all open tax years based on its assessment of many factors, including interpretations of tax law and prior experience. This assessment relies on estimates and assumptions and may involve a series of judgements about future events. New information may become available that causes the Group to change its judgement regarding the adequacy of existing tax liabilities; such changes to tax liabilities will impact tax expense in the period that such a determination is made.

3.14 Earnings per share

The Group presents basic and diluted earnings per share data for its ordinary shares. Basic earnings per share is calculated by dividing the profit or loss attributable to ordinary shareholders of the Company by the weighted average number of ordinary shares outstanding during the year, adjusted for own shares held. Diluted earnings per share is determined by adjusting the profit or loss attributable to ordinary shareholders and the weighted average number of ordinary shares outstanding, adjusted for own shares held, for the effects of all dilutive potential ordinary shares, which comprise convertible bonds, warrants and employee share options.

3.15 Segment reporting

An operating segment is a component of the Group that engages in business activities from which it may earn revenues and incur expenses, including revenues and expenses that relate to transactions with any of the Group's other components. All operating segments' operating results are reviewed regularly by the Group's Chief Executive Officer (CEO) to make decisions about resources to be allocated to the segment and to assess its performance, and for which discrete financial information is available.

Segment results that are reported to the CEO include items directly attributable to a segment as well as those that can be allocated on a reasonable basis. Unallocated items comprise mainly corporate assets (primarily the Company's headquarters), head office expenses, and income tax assets and liabilities.

Segment capital expenditure is the total cost incurred during the year to acquire property, plant and equipment, and intangible assets other than goodwill.

3 SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

3.16 New accounting standards and interpretations issued but not yet effective for the financial year ended 31 December 2012

A number of new standards, amendments to standards and interpretations are effective for annual periods beginning after 1 January 2012 and have not been applied in preparing these financial statements. The new standards that are expected to have an effect on the financial statements of the Group in future financial periods, and which the Group does not plan to early adopt, are set out below.

Applicable for the Group's 2013 financial statements

- FRS 113 Fair Value Measurement, which replaces the existing guidance on fair value measurement in different FRSs with a single definition of fair value. The standard also establishes a framework for measuring fair values and sets out the disclosure requirements for fair value measurements.

  The adoption of this standard will require the Group to re-assess the bases used for determining the fair values computed for both measurement and disclosures purposes and would result in more extensive disclosures on fair value measurements. On initial application of the standard, the Group does not expect substantial changes to the bases used for determining fair values.

Applicable for the Group's 2014 financial statements

- FRS 110 Consolidated Financial Statements, which changes the definition of control such that an investor controls an investee when it is exposed, or has rights, to variable returns from its involvement with the investee and has the ability to affect those returns through its power with the investee. FRS 110 introduces a single control model with a series of indicators to assess control. FRS 110 also adds additional context, explanation and application guidance based on the principle of control.

  FRS 111 Joint Arrangements, which establishes the principles for classification and accounting of joint arrangements. The adoption of this standard would require the Group to re-assess and classify its joint arrangements as either joint operations or joint ventures based on its rights and obligations arising from the joint arrangements. Under this standard, interests in joint ventures will be accounted for using the equity method whilst interests in joint operations will be accounted for using the applicable FRSs relating to the underlying assets, liabilities, revenue and expense items arising from the joint operations. The Group is currently assessing the impact to the Group's financial statements.

- FRS 112 Disclosure of Interests in Other Entities, which sets out the disclosures required to be made in respect of all forms of an entity's interests in other entities, including subsidiaries, joint arrangements, associates and unconsolidated structured entities. The adoption of this standard would result in more extensive disclosures being made in the Group's financial statements in respect of its interests in other entities; as FRS 112 is primarily a disclosure standard, there will be no financial impact on the results and financial position of the Group and the Company. The Group is currently collating the information of the additional disclosures required.

4 REVENUE

	Group 2012 $'000	Group 2011 $'000
Sale of goods	511,098	331,307
Rental income	129,698	124,886
Rendering of services	50,970	28,789
Others	6,363	7,756
	698,129	492,738

5 RESULTS FROM OPERATING ACTIVITIES

The following items have been included in arriving at results from operating activities for the year:

	Note	Group 2012 $'000	Group 2011 $'000
Allowance for impairment loss on receivables	27	8,796	2,179
Bad trade debts written off		304	896
(Write-back of)/allowance for inventory obsolescence (net)	12	(285)	15,470
Amortisation of intangible assets	17	2,569	3,010
Depreciation of property, plant and equipment	16	39,642	34,515
Plant and equipment written off		124	130
Foreign exchange loss		1,423	5,174
(Gain)/Loss on disposal of property, plant and equipment		(38)	363
Impairment loss on property, plant and equipment	16	–	8,507
Impairment loss on intangible assets	17	–	4,855
Gain on liquidation of subsidiaries		–	(1,173)
Loss on disposal of associates		–	44
Gain on liquidation of jointly controlled entities		(96)	(52)
Loss on acquisition of additional interest in a jointly controlled entity	25(a)	1,434	–
Inventory written off		305	732
Fair value gain upon lapse of an option		(10,628)	–
Audit and other attestation fees paid and payable to:			
– auditors of the Company		572	1,079
– other auditors		183	264
Non-audit fees paid and payable to:			
– auditors of the Company		284	479
– other auditors		99	16
Operating lease expenses		11,137	12,962
Staff costs		53,183	56,826
Contributions to defined contribution plans, included in staff costs		3,351	3,493
Directors fees paid and payable to directors of the Company		292	276

6 FINANCE INCOME AND FINANCE COSTS

	Group 2012 $'000	Group 2011 $'000
Recognised in profit or loss		
Finance income:		
– Interest income on fixed and cash deposits with banks	114	77
– Interest income on loans and receivables	300	490
– Gain on interest rate swaps	265	235
	679	802
Interest expense on:		
– Finance lease liabilities	(27)	(34)
– Bills payable to banks	(628)	(470)
– Bank loans	(8,512)	(6,781)
– Bank overdraft	(18)	–
– Convertible bonds	(3,210)	(3,210)
– Loss on interest rate swaps	(427)	(685)
	(12,822)	(11,180)
Amortisation of discount on convertible bonds	(5,914)	(10,137)
Amortisation of transaction costs incurred in connection with the issue of convertible bonds	(385)	(453)
Fair value loss on financial derivatives	–	(8,575)
	(19,121)	(30,345)
Net finance costs	(18,442)	(29,543)

The above finance income and finance costs include the following interest income and expense in respect of assets (liabilities) not at fair value through profit or loss:

	Group 2012 $'000	Group 2011 $'000
– Total interest income on financial assets	414	567
– Total interest expense on financial liabilities	(12,395)	(10,495)

7 INCOME TAX EXPENSE

	Group 2012 $'000	Group 2011 $'000
Income tax expense recognised in profit and loss		
Current tax expense		
Current year	2,448	628
Over provision of tax in respect of prior years	(117)	(1,133)
Withholding tax suffered in foreign jurisdiction	6,407	6,088
	8,738	5,583
Deferred tax expense		
Origination and reversal of temporary differences	414	1,448
Over provision of tax in respect of prior years	(1,139)	(915)
	(725)	533
Total income tax expense	8,013	6,116

Reconciliation of effective tax rate

	Group 2012 $'000	Group 2011 $'000
Profit/(Loss) before income tax	13,118	(81,543)
Share of results of associates and jointly controlled entities (net of tax)	482	5,049
Profit/(Loss) before income tax excluding share of results of associates and jointly controlled entities	13,600	(76,494)
Tax calculated using Singapore tax rate of 17% (2011: 17%)	2,312	(13,004)
Effect of different tax rates in other countries	(1,844)	(1,785)
Income not subject to tax	(3,698)	(5,553)
Expenses not deductible for tax purposes	5,650	23,733
Unrecognised tax losses	863	–
Foreign tax credit (net)	(10)	–
Withholding tax suffered	6,407	6,088
Overprovision of tax in respect of prior years	(1,256)	(2,048)
Others	(411)	(1,315)
	8,013	6,116

Income and revenue taxes

The Group is subject to income and revenue taxes in several jurisdictions. Significant judgement is required to determine the capital allowances, the types and rates of taxes payable, deductibility of certain expenses, and taxability of certain income. There are many transactions during the ordinary course of business for which the ultimate tax determination is uncertain. The Group recognises liabilities for anticipated tax based on estimates of whether taxes will be due. Where the final tax outcome of these matters is different from the amounts that were initially recorded, such differences will impact the revenue, provision for income tax and deferred income tax provisions in the period in which such determination is made.

8 EARNINGS/(LOSS) PER SHARE

		Group	
		2012 $'000	2011 $'000
Basic earnings/(loss) and diluted earnings/(loss) per share is based on:			
(a)	Profit/(Loss) attributable to ordinary shareholders	1,289	(78,757)

		No. of shares ('000)	No. of shares ('000)
(b)	Number of ordinary shares in issue at beginning of the year	410,345	410,338
	Effect of warrants exercised	–	4
	Weighted average number of ordinary shares	410,345	410,342
Basic earnings/(loss) and diluted earnings/(loss) per share (cents)		0.31	(19.19)

In 2011, diluted earnings per share is the same as basic earnings per share as the Group has no potential dilutive warrants.

There are no outstanding warrants as at 31 December 2012.

9 CASH AND CASH EQUIVALENTS

	Group		Company	
	2012 $'000	2011 $'000	2012 $'000	2011 $'000
Cash and bank balances	60,087	57,883	705	2,386
Fixed deposits with banks	597	727	41	43
	60,684	58,610	746	2,429
Deposits pledged	(13,814)	(9,218)		
Cash and cash equivalents in the consolidated statement of cash flows	46,870	49,392		

The deposits pledged represent bank balances of subsidiaries pledged as security to obtain banking facilities as disclosed in Note 20.

The weighted average effective interest rates per annum relating to fixed deposits with banks at the reporting date for the Group and the Company are 3.32% (2011: 3.33%) and 0.04% (2011: 0.19%) respectively. Interest rates re-price at intervals of one to three months.

The Group and the Company's exposure to interest rate risk and foreign currency risk and sensitivity analysis for cash and cash equivalents are disclosed in Note 27.

10 AMOUNTS DUE FROM SUBSIDIARIES

	Company	
	2012	2011
	$'000	$'000
Non-trade	11,167	10,770
Allowance for doubtful receivables	(122)	(88)
Loans and receivables	11,045	10,682

The amounts due from subsidiaries, which are mainly denominated in United States dollars, are unsecured and repayable on demand. These amounts are interest-free except for amounts totalling $5,926,000 (2011: $10,228,000) which bear fixed interest at 1% (2011: 4%) per annum.

The Company's exposure to credit risk, currency risk and impairment losses related to amounts due from subsidiaries are disclosed in Note 27.

11 TRADE RECEIVABLES

	Group		Company	
	2012	2011	2012	2011
	$'000	$'000	$'000	$'000
Trade receivables – Third parties	146,207	113,723	7	8
Impairment losses	(15,228)	(6,921)	(7)	(8)
	130,979	106,802	–	–
Trade receivables:				
– Companies in which a director of the company has substantial financial interest	18,759	16,731	–	–
– Jointly controlled entities	5,166	2,852	–	–
Accrued revenue	10,537	11,069	–	–
Loans and receivables	165,441	137,454	–	–

Trade receivables denominated in currencies other than the Company's functional currency are mainly denominated in United States dollars.

The Group and the Company's exposure to credit risk, currency risk and impairment losses related to trade receivables are disclosed in Note 27.

12 INVENTORIES

	Group	
	2012	**2011**
	$'000	**$'000**
Finished goods	153,060	142,173
Work in progress	36	194
	153,096	142,367
Allowance for inventory obsolescence	(18,338)	(22,148)
	134,758	120,219

The movement in allowance for inventory obsolescence during the year is as follows:

	Group	
	2012	**2011**
	$'000	**$'000**
At 1 January	22,148	7,345
(Write-back of)/Allowance for inventory obsolescence (Note 5)	(285)	15,470
Allowance utilised	(3,414)	(241)
Liquidation of subsidiaries	–	(430)
Translation differences	(111)	4
At 31 December	18,338	22,148

During the year, inventories recognised in cost of sales amounted to $345,590,000 (2011: $275,679,000).

Inventory obsolescence

A review is made periodically of inventory for excess inventory, obsolescence and declines in net realisable value below cost and an allowance is recorded against the inventory balance for any such declines. These reviews require management to estimate future demand for the products. The realisable value represents the best estimate of the recoverable amount and is based on the most reliable evidence available at the reporting date and inherently involves estimates regarding the future expected realisable value. The benchmarks for determining the amount of allowance or write-down include ageing analysis, technical assessment and subsequent events. In general, such an evaluation process requires significant judgement and materially affects the carrying amount of inventories at the reporting date. Possible changes in these estimates could result in revisions to the valuation of inventory.

13 OTHER ASSETS

	Group		Company	
	2012	2011	2012	2011
	$'000	$'000	$'000	$'000
Current				
Non-trade amounts due from:				
– Jointly controlled entities (note a)	22,502	23,260	471	362
– Other related parties	–	8	–	8
Loan to a jointly controlled entity (note b)	43,898	–	–	–
	66,400	23,268	471	370
Impairment losses	(342)	(1,682)	(342)	(362)
	66,058	21,586	129	8
Deposits	20,171	19,768	42	49
Recoverables (note c)	5,081	5,380	–	–
Staff loans and advances	–	116	–	–
Tax recoverables	8,747	8,461	18	164
Other receivables	6,776	8,612	296	288
	40,775	42,337	356	501
Impairment losses	(6,776)	(5,670)	(290)	(290)
	33,999	36,667	66	211
Loans and receivables	100,057	58,253	195	219
Advances to suppliers	1,935	1,156	–	–
Advance billings to customers	–	549	–	–
Prepayments	8,467	7,970	5	–
Derivative financial assets	–	635	–	635
	110,459	68,563	200	854
Non-current				
Loan to a jointly controlled entity (note d)	38,369	–	–	–
Loans and receivables	38,369	–	–	–
Others	306	306	301	301
	38,675	306	301	301
Total loans and receivables	138,426	58,253	195	219

(a) These relate to payments on behalf of jointly controlled entities and the amounts are interest free, unsecured and repayable on demand.

(b) The loan to a jointly controlled entity is unsecured, repayable on demand and bears interest at 7% per annum. The loan was granted to finance the purchase of a rig.

In 2013, the loan has been fully settled by the jointly controlled entity.

13 OTHER ASSETS (CONTINUED)

(c) The amounts relate to upgrading expenditures of a rig owned by a former subsidiary of Atlantic Rotterdam Ltd ("ARL"). Upon the disposal of the former subsidiary, these recoverable amounts were assigned to an external party as part of the acquisition of ARL by the Group in 2007. These amounts are interest-free and unsecured.

(d) The loan to a jointly controlled entity is unsecured, bears interest at 7% per annum and is to be repaid in accordance to the agreed repayment schedule.

The non-trade amounts due from other related parties are unsecured, interest-free and repayable on demand.

The Group and the Company's exposure to credit risk, foreign currency risk and impairment losses related to other current assets are disclosed in Note 27.

14 ASSOCIATES AND JOINTLY CONTROLLED ENTITIES

	Group		Company	
	2012 $'000	2011 $'000	2012 $'000	2011 $'000
Investments in associates				
– Unquoted	469	414	–	–
Impairment losses	–	–	–	–
	469	414	–	–
Share of post-acquisition reserves	–	–	–	–
	469	414	–	–
Investments in jointly controlled entities	6,735	6,238	5,284	5,384
Loans to jointly controlled entities	33,533	119,983	33,521	34,512
Impairment losses	–	–	(14,301)	(4,479)
	40,268	126,221	24,504	35,417
Share of post-acquisition reserves	(28,202)	(36,096)	–	–
	12,066	90,125	24,504	35,417
Total	12,535	90,539	24,504	35,417

The loans to jointly controlled entities are mainly denominated in United States dollars, unsecured and interest-free. The settlement of these loans is neither planned nor likely to occur in the foreseeable future. These loans form part of the Company's net investments in the jointly controlled entities and are stated at cost less accumulated impairment losses.

At 31 December 2011, the loans to jointly controlled entities amounting to $38,820,000 are subordinated to the term loans obtained by the respective jointly controlled entities.

14 ASSOCIATES AND JOINTLY CONTROLLED ENTITIES (CONTINUED)

Impairment

The Group evaluates whether there is any objective evidence that its investments in and loans to jointly controlled entities are impaired and determines the amount of impairment loss based on the recoverable amounts of the jointly controlled entities. The impairment test on the investments in and loans to certain jointly controlled entities was triggered because of the poor financial performance of the jointly controlled entities and decline in value of the rigs and vessels owned by the jointly controlled entities. For impairment testing, each jointly controlled entity is a separate cash generating unit (CGU).

The change in impairment losses in respect of the Company's investments in and loans to jointly controlled entities during the year is as follows:

	Company	
	2012 $'000	2011 $'000
At 1 January	4,479	9,958
Impairment losses recognised	9,822	1,402
Impairment losses written back	–	(6,881)
At 31 December	14,301	4,479

The Company recognised an impairment loss of $9,822,000 (2011: $1,402,000) in other operating expenses due to the decrease in recoverable amount of a vessel owned by the jointly controlled entity. As at 31 December 2012, the vessel was classified as held for sale and the recoverable amount was determined based on the offer price from a buyer less the costs to sell. In 2011, the recoverable amount was determined using the fair value based on the valuation report by an independent professional valuer.

Due to the restructuring of Drilling business in 2011, the loans to a jointly controlled entity amounting to $87,795,000 was transferred from the Company to KS Drilling Pte Ltd. As a result, the impairment loss recognised in 2010 of $6,881,000 was reversed and transferred to KS Drilling in 2011.

Source of estimation uncertainty

The Group maintains impairment losses at a level considered adequate to provide for potential non-recoverability of the investments in associates and jointly controlled entities and the loans to jointly controlled entities. The level of allowance is evaluated by the Group on the basis of factors that affect the recoverability of the investments and loans. These factors include, but are not limited to, the activities and financial position of the entities and market factors. The Group reviews and identifies balances that are to be impaired on a continuous basis. The amount and timing of recorded expenses for any period would differ if the Group made different judgement or utilised different estimates. An increase in the Group's impairment losses would increase the Group's recorded other operating expenses and decrease the carrying value of the investments in associates and jointly controlled entities and/or the loans to jointly controlled entities.

14 ASSOCIATES AND JOINTLY CONTROLLED ENTITIES (CONTINUED)

Details of the associates and jointly controlled entities, not adjusted for the percentage ownership held by the Group, are as follows:

Name of associates/ jointly controlled entities	Principal activities	Country of incorporation	Ownership interest held by the Group 2012 %	2011 %
Associates				
SCE Controls & Engineering Pte. Ltd.	Trading, marketing and installation of valves and equipment for oil and gas	Singapore	40	20
IMOS Holdings Pte Ltd	Business management and consultancy services	Singapore	30	30
Jointly controlled entities				
Aqua Terra Middle East	Managing supply base for oil and gas companies in Qatar and surrounding region	Qatar	49	49
Dutco Tennant Aqua Terra LLC	Management and operation of an integrated offshore supply base	Dubai	49	49
FODE-AOS Operating Company Limited	To carry on business on onshore and offshore drilling for oil and gas industry	West Africa	40	40
Girdnal Oilfield Services Inc.	Ownership and charter of land rigs	United States of America	50	50
Global Oilfield Services Pte. Ltd.	Liquidated	Singapore	–	50
KT Lion Oilfield Services Limited[1]	Provision of rig and oilfield related services	British Virgin Islands	70	70
KSAM2 Petrodrill Offshore Inc.[3]	Ownership and chartering jack up rigs and provision of services for oil and gas industry	British Virgin Islands	–	50
New Strong Group Limited	Investment holding	British Virgin Islands	50	50
Yakki International Pte. Ltd.[2]	Ownership and charter of an offshore rig	Singapore	50	50
PT KS Drilling Indonesia	Investment holding	Indonesia	49	–
PT Java Star Rig	Ownership and leasing of equipment and provision of services to the oil and gas industry	Indonesia	49	–

14 ASSOCIATES AND JOINTLY CONTROLLED ENTITIES (CONTINUED)

[1] Although the Group owns more than half of the equity interests in the entity, it has only joint control over the entity, established by contractual agreement which requires unanimous consent for strategic financial and operating decisions. Consequently, the Group does not consolidate its investment in this entity.

[2] KPMG LLP, Singapore is the auditor of this significant Singapore-incorporated entity. The rest of the associates and jointly controlled entities are not considered significant in accordance with Rule 718 of the SGX-ST Listing Manual. For this purpose, an associate or a jointly controlled entity is considered significant as defined under the SGX Listing Manual if the Group's share of its net tangible assets represents 20% or more of the Group's consolidated net tangible assets, or if the Group's share of its pre-tax profits accounts for 20% or more of the Group's consolidated pre-tax profits.

[3] Reclassified from investment in jointly controlled entity to investment in subsidiary during the year upon acquisition of the remaining 50% equity interest of this entity by KS Drilling Group.

Associates

Summarised financial information of the associates, not adjusted for the percentage of ownership held by the Group, is as follows:

	Group	
	2012	**2011**
	$'000	**$'000**
Assets and liabilities		
Total assets	1,548	1,916
Total liabilities	(45)	(101)
Results		
Revenue	695	557
(Loss)/profit after tax	(472)	205

Jointly controlled entities

The aggregate amounts of assets and liabilities of the jointly controlled entities as at the reporting dates, not adjusted for the percentage of ownership held by the Group, are as follows:

	Group	
	2012	**2011**
	$'000	**$'000**
Assets and liabilities		
Non-current assets	140,025	276,177
Current assets	46,062	60,924
Total assets	186,087	337,101
Non-current liabilities	(50,530)	(119,420)
Current liabilities	(154,321)	(243,355)
Total liabilities	(204,851)	(362,775)

14 ASSOCIATES AND JOINTLY CONTROLLED ENTITIES (CONTINUED)

Jointly controlled entities (Continued)

The above jointly controlled entities' financial information has not been adjusted for the Group's percentage of ownership as it cannot be allocated to the Group on a reasonable basis given that the Group's profit-sharing ratios in certain jointly controlled entities are variable and are different from the proportion of ownership interest held by the Group in the jointly controlled entities.

Other summarised financial information of the jointly controlled entities, adjusted for the percentage of ownership held by the Group, is as follows:

	Group	
	2012	**2011**
	$'000	**$'000**
Results		
Revenue	10,987	38,359
Expenses	(11,469)	(43,454)
Loss after tax	(482)	(5,095)
Contingent liabilities incurred directly by the Group[(1)]	–	81,065

(1) The contingent liabilities incurred directly by the Group relate to the financial guarantees issued by the Group to certain banks in respect of banking facilities drawn down by the jointly controlled entities.

15 SUBSIDIARIES

	Company	
	2012	**2011**
	$'000	**$'000**
Unquoted shares, at cost	404,346	404,346
Loans to subsidiaries	97,998	103,738
	502,344	508,084
Impairment losses	(85,510)	(83,443)
	416,834	424,641

The loans to subsidiaries are mainly denominated in United States dollars, are unsecured and interest-free. The settlement of these loans is neither planned nor likely to occur in the foreseeable future. These loans form part of the Company's net investment in the subsidiaries and are stated at cost less accumulated impairment losses.

15 SUBSIDIARIES (CONTINUED)

Impairment

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

	Company	
	2012 $'000	2011 $'000
At 1 January	83,443	39,480
Impairment losses recognised	2,067	43,963
At 31 December	85,510	83,443

At year end, the impairment test on the investments in and loans to certain subsidiaries was triggered because of the poor financial performance of the subsidiaries and decline in values of the rigs owned by the subsidiaries. For impairment testing, each subsidiary is a separate cash generating unit (CGU). Based on the recoverable amounts of the rigs owned by the subsidiaries, determined using the fair values less costs to sell derived from the valuation reports by independent professional valuers, the Company recognised an impairment loss on investments in and loans to subsidiaries of $2,067,000 (2011: $43,963,000) in other operating expenses.

Source of estimation uncertainty

The Company maintains impairment losses at a level considered adequate to provide for potential non-recoverability of the investments in and loans to subsidiaries. The level of allowance is evaluated by the Company on the basis of factors that affect the recoverability of the investments and loans. 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 continuous basis. The amount and timing of recorded expenses for any period would differ if the Company made different judgement or utilised different estimates. An increase in the Company's impairment losses would increase the Company's recorded other operating expenses and decrease the carrying value of the investments in and/or loans to subsidiaries.

15 SUBSIDIARIES (CONTINUED)

Details of the subsidiaries are as follows:

Name of subsidiaries	Principal activities	Country of incorporation	Effective interest held by the Group 2012 %	2011 %
KS Distribution Pte. Ltd[1] and its subsidiaries	Investment holding	Singapore	55	55
SSH Corporation Ltd[1] and its subsidiaries	Trading and dealing in industrial materials, general hardware, welding and cutting equipment and related products	Singapore	55	55
SSH Corporation (PNG) Pte. Ltd.[1]	Trading and dealing in general welding equipment and consumables	Singapore	55	55
KS Distribution (Thailand) Limited[2] (formerly known as Deltametal (Thailand) Limited)	Distribution of welding consumables, equipment and industrial material supplies	Thailand	55	55
Sin Soon Huat International Trading[1] Pte. Ltd.	Trading and dealing in industrial materials, hardware, machinery and equipment	Singapore	55	55
KS Distribution (Malaysia) Sdn. Bhd. (formerly known as Singmetal (M) Sdn Bhd)	Provision of total engineering services, manufacturing and distribution of welding automation and industrial equipment, systems and industrial engineering products and designing	Malaysia	55	55
KS Distribution (Vietnam) Company Limited (formerly known as SSH (Vietnam) Company Limited)	Trading and dealing industrial materials, general hardware and welding machines and consumables	Vietnam	55	55
Indo Synergy Pte. Ltd.[1] and its subsidiary	Trading and dealing in general welding equipment and consumables	Singapore	44	44
PT Suryasarana Hidupjaya	Trading and dealing in general welding equipment and consumables	Indonesia	40	40
Amspeed Pte. Ltd.[1]	General warehousing and services allied to transport of goods	Singapore	41	41
Aqua-Terra Supply Co. Limited[1] and its subsidiaries	Investment holding	Singapore	55	55

15 SUBSIDIARIES (CONTINUED)

Name of subsidiaries	Principal activities	Country of incorporation	Effective interest held by the Group 2012 %	2011 %
Aqua-Terra Global Pte. Ltd.[1]	Trading of tools and equipment for the marine, oil and gas industries	Singapore	55	55
Aqua-Terra Logistics Pte. Ltd.[1]	Provision of value-added logistics services	Singapore	55	55
Aqua-Terra Oilfield Equipment & Services Pte. Ltd.[1]	Trading of tools and equipment for the marine, oil and gas industries	Singapore	55	55
KS Marinehub Pte. Ltd.[1] (formerly known as Marinehub Pte. Ltd.) and its subsidiaries	Trading of marine-related products and provision of marine-related services	Singapore	55	55
Starbeam Technology Pte. Ltd.[1]	Testing and certification for related marine, offshore and construction products	Singapore	55	55
MH Global Pte. Ltd.[1]	Building of ships and tankers	Singapore	55	55
Oceanic Offshore Engineering Pte. Ltd.[1]	Rigging and testing of wire ropes and related services	Singapore	44	44
Orient Marine Pte. Ltd.[1] and its subsidiary	Trading of spare parts and provision of ship-handling services to vessels	Singapore	55	55
Fischer Engineering Pte. Ltd.[1]	Repair and supply of turbo charges	Singapore	55	55
Raymonds Supply Company Limited and its subsidiary	Trading of metalware and provision of transportation services	Hong Kong	55	55
Sure Link Transportation Limited	Transportation and forwarding services	Hong Kong	55	55
KS Flow Control Pte. Ltd.[1] and its subsidiary	Trading and supply of instrumentation and valves, and industrial products for the oil and gas, marine and shipbuilding industries	Singapore	55	55
Globaltech Offshore & Marine Pte. Ltd.[1]	Sale and supply of corrosion-resistant-alloy pipeline components and engineering products for the marine, offshore oil & gas, petrochemical and chemical industries	Singapore	55	55

15 SUBSIDIARIES (CONTINUED)

Name of subsidiaries	Principal activities	Country of incorporation	Effective interest held by the Group 2012 %	2011 %
PT KSD Indonesia (formerly known as PT KS Flow Control) and its subsidiary	Trading of hydraulic product instrumentation, equipment and valves, and industrial products for the marine and oil and gas industries	Indonesia	55	55
PT AT Oceanic Offshore	Fabrication and sale of wire ropes and provision of testing services	Indonesia	55	55
KS Distribution (Shanghai) Ltd. (formerly known as SSH Corporation (Shanghai) Ltd) and its subsidiaries	Trading and dealing in industrial materials, general hardware and welding machine and consumables	People's Republic of China	55	55
Dalian F.T.Z. Sin Soon Huat International Trade Co. Ltd	Trading and dealing in industrial materials and general hardware	People's Republic of China	55	55
Aqua-Terra Supply (Tianjin) Oilfield Equipment Trading Co Ltd	Sale and supply of consumables & equipment, provision of rigging and related services to the oil and gas industries	People's Republic of China	55	55
Sure Link Logistics (Shenzhen) Co., Limited	Transportation and forwarding services	People's Republic of China	55	55
Raymonds Supply (Shanghai) Co., Ltd.	International trading, transit trading, trading at bonded warehouse area, trading with import and export companies in PRC with legal licence, simplified processing and business consultancy	People's Republic of China	55	55
Raymonds Supply (Shenzhen) Co., Ltd.	Trading and supply of parts and consumables to customers in the oil and gas industry	People's Republic of China	55	55
KS Equipment (Shanghai) Ltd	Trading in hydraulic products	People's Republic of China	55	55
KS Distribution (AUST) Pty Ltd	Sale and supply of oil and gas industrial materials	Australia	55	–

15 SUBSIDIARIES (CONTINUED)

Name of subsidiaries	Principal activities	Country of incorporation	Effective interest held by the Group 2012 %	2011 %
KS Fabrication and Engineering Pte. Ltd.[1] and its subsidiary	Investment holding	Singapore	100	100
Globaltech Systems Engineering Pte. Ltd.[1] and its subsidiary	Provides engineering design, project management, procurement and supply of custom-built system equipment for the marine, offshore oil & gas, petrochemical, refinery and power generation industries	Singapore	82	82
PT Globaltech Systems Engineering	Provides engineering design, project management, procurement and supply of custom-built system equipment for the marine, offshore oil & gas, petrochemical, refinery and power generation industries	Indonesia	78	–
Harta Holding Pte. Ltd.[1] and its subsidiary	Investment holding and owning and chartering of vessel	Singapore	100	100
Harta Offshore & Marine Services Pte. Ltd.[1]	Trading and supply of equipment for the marine and oil and gas industries	Singapore	100	100
KS Drilling Pte. Ltd.[1] and its subsidiaries	Investment holding	Singapore	80	80
KS Discoverer 1 Pte. Ltd.[1]	Ownership and leasing of equipment and provision of services to the oil and gas industry	Singapore	80	80
KS Discoverer 2 Pte. Ltd.[1]	Ownership and leasing of equipment and provision of services to the oil and gas industry	Singapore	80	80
KS Discoverer 4 Pte. Ltd.[1]	Ownership and leasing of equipment and provision of services to the oil and gas industry	Singapore	80	80
KS Discoverer 3 (HK) Limited	Ownership and leasing of equipment and provision of services to the oil and gas industry	Hong Kong	80	80
KS Discovery (HK) Limited and its subsidiaries	Investment holding	Hong Kong	80	80

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15 SUBSIDIARIES (CONTINUED)

Name of subsidiaries	Principal activities	Country of incorporation	Effective interest held by the Group 2012 %	2011 %
QIM Ventures Limited[2]	Ownership and leasing of jack up rigs and provision of services to the oil and gas industry	Cyprus	80	80
Atlantic Marine Service Egypt[2]	Provision of services for oil and gas industry	Egypt	80	80
Atlantic Marine Services (Cyprus) Group Ltd.[2] and its subsidiaries	Provision of rig management and support services to the oil and gas industry	Cyprus	80	80
Atlantic Oilfield Services Europe B.V.[2]	Development of business prospects in the onshore/offshore/marine industries and management of accommodation-platforms	Netherlands	80	80
Atlantic Onshore Services B.V.[2]	Development of business prospects in the onshore/offshore/marine industries and management of accommodation-platforms/rigs	Netherlands	80	80
PT Petro Papua Energi[3]	Ownership and leasing of equipment and provision of services to the oil and gas industry	Indonesia	48	48
PT Atlantic Oilfield Services	Ownership and leasing of equipment and provision of services to the oil and gas industry	Indonesia	76	72
Mineral Energy Reserves Driller Inc	Trading and leasing of equipment and provision of services to the oil and gas industry	British Virgin Islands	80	–
KSAM2 Petrodrill Offshore Inc.[4]	Ownership and chartering jack up rigs and provision of services for oil and gas industry	British Virgin Islands	80	–
KS Discoverer 2 (HK) Limited	In the process of liquidation	Hong Kong	100	100
KS Oilfield Equipment Pte. Ltd.	Inactive	Singapore	100	100
KS Oilfield Services Ltd.[2]	Provision of oilfield support and consultancy services	Mauritius	100	100

15 SUBSIDIARIES (CONTINUED)

Name of subsidiaries	Principal activities	Country of incorporation	Effective interest held by the Group 2012 %	2011 %
KS Resources Pte Ltd (formerly known as KS Technical Resources Pte Ltd) and its subsidiary	Inactive	Singapore	100	100
KSE (Philippines) Pte Ltd (formerly known as Specialist Resources International Pte. Ltd.)	Marketing of oil and gas services	Singapore	100	100
S&E Cumford (Thailand) Ltd	Inactive	Thailand	100	100
Sphinx Frontier Ltd. and its subsidiary	Investment holding	British Virgin Islands	100	100
Atlantic Rotterdam Limited[1]	Provision of rig rental, rig management and support services to the oil and gas industry	Bermuda	100	100
United Oilfield Services Pte. Ltd.[1]	Ownership and leasing of equipment and machinery	Singapore	100	100

1 KPMG LLP, Singapore is the auditor of all significant Singapore-incorporated subsidiaries and Atlantic Rotterdam Limited.

2 Audited by other member firms of KPMG International.

3 Audited by Drs. Bernardi & Co.

The remaining foreign incorporated subsidiaries are not considered significant in accordance with Rule 718 of the SGX-ST Listing Manual. For this purpose, a subsidiary is considered significant as defined under the SGX Listing Manual if its net tangible assets represent 20% or more of the Group's consolidated net tangible assets, or if its pre-tax profits account for 20% or more of the Group's consolidated pre-tax profits.

4 Reclassified from investment in jointly controlled entity to investment in subsidiary during the year upon acquisition of the remaining 50% equity interest of this entity by KS Drilling Pte Ltd.

16 PROPERTY, PLANT AND EQUIPMENT

	Leasehold properties $'000	Plant and machinery $'000	Rigs & vessels $'000	Renovation, furniture and fittings $'000	Office equipment $'000	Motor vehicles $'000	Assets under construction $'000	Total $'000
Group								
Cost								
At 1 January 2011	42,017	24,463	397,591	9,389	10,184	6,873	–	490,517
Additions	2,006	3,977	53,200	594	574	9,421	23,609	93,381
Reclassification between asset categories	564	(288)	5	287	(791)	223	–	–
Acquisition of subsidiary	–	–	1,847	–	10	219	–	2,076
Write-off	–	–	–	(4)	(24)	(176)	–	(204)
Disposals	–	(123)	(895)	(749)	(1,765)	(245)	–	(3,777)
Translation differences	8	108	3,347	22	81	11	–	3,577
At 31 December 2011	44,595	28,137	455,095	9,539	8,269	16,326	23,609	585,570
Additions	97	108	14,801	332	2,004	457	15,683	33,482
Reclassification between asset categories	(564)	(5)	8,609	27	542	(8,609)	–	–
Write-off	–	–	(2,455)	(39)	(103)	(16)	–	(2,613)
Disposals	–	(171)	–	(173)	(371)	(837)	–	(1,552)
Translation differences	(249)	(567)	(24,636)	(4)	(62)	(107)	(1,306)	(26,931)
At 31 December 2012	43,879	27,502	451,414	9,682	10,279	7,214	37,986	587,956
Accumulated depreciation and impairment losses								
At 1 January 2011	13,190	10,860	86,106	6,000	8,841	3,315	–	128,312
Depreciation charge for the year	2,091	4,330	25,459	992	775	868	–	34,515
Impairment loss	–	–	8,507	–	–	–	–	8,507
Write-off	–	–	–	(1)	(23)	(50)	–	(74)
Disposals	–	(99)	(321)	(747)	(1,834)	(252)	–	(3,253)
Reclassifications between asset categories	691	(210)	3	26	(750)	240	–	–
Translation differences	(1)	133	1,673	(51)	30	81	–	1,865
At 31 December 2011	15,971	15,014	121,427	6,219	7,039	4,202	–	169,872
Depreciation charge for the year	2,128	3,772	31,178	994	724	846	–	39,642
Write-off	–	–	(2,361)	(20)	(100)	(8)	–	(2,489)
Disposals	–	(148)	–	(124)	(351)	(641)	–	(1,264)
Reclassifications between asset categories	(564)	10	–	12	542	–	–	–
Translation differences	(6)	(639)	(5,985)	(56)	(72)	(65)	–	(6,823)
At 31 December 2012	17,529	18,009	144,259	7,025	7,782	4,334	–	198,938
Carrying amount								
At 1 January 2011	28,827	13,603	311,485	3,389	1,343	3,558	–	362,205
At 31 December 2011	28,624	13,123	333,668	3,320	1,230	12,124	23,609	415,698
At 31 December 2012	26,350	9,493	307,155	2,657	2,497	2,880	37,986	389,018

16 PROPERTY, PLANT AND EQUIPMENT (CONTINUED)

	Renovation, furniture and fittings $'000	Office equipment $'000	Motor vehicles $'000	Total $'000
Company				
Cost				
At 1 January 2011	2,362	718	39	3,119
Additions	53	27	–	80
Disposals	–	(2)	(39)	(41)
Write-off	–	(22)	–	(22)
At 31 December 2011	2,415	721	–	3,136
Additions	5	4	–	9
Write-off	–	(7)	–	(7)
At 31 December 2012	2,420	718	–	3,138
Accumulated depreciation and impairment losses				
At 1 January 2011	647	647	18	1,312
Depreciation charge for the year	284	33	–	317
Disposals	–	(2)	(18)	(20)
Write-off	–	(20)	–	(20)
At 31 December 2011	931	658	–	1,589
Depreciation charge for the year	262	34	–	296
Write-off	–	(7)	–	(7)
At 31 December 2012	1,193	685	–	1,878
Carrying amount				
At 1 January 2011	1,715	71	21	1,807
At 31 December 2011	1,484	63	–	1,547
At 31 December 2012	1,227	33	–	1,260

The depreciation charge of the Group is recognised in the following line items of the income statement:

	2012 $'000	2011 $'000
Direct depreciation	30,057	17,090
Other operating expenses	9,585	17,425
	39,642	34,515

At 31 December 2012, the Group's rigs with carrying amount of $274,357,000 (2011: $310,771,000) and assets under construction with carrying amount of $9,952,000 (2011: Nil) are pledged as securities to secure bank loans (see Note 20).

At 31 December 2012, the carrying amount of property, plant and equipment held by the Group under finance leases amounted to $175,000 (2011: $544,000).

16 PROPERTY, PLANT AND EQUIPMENT (CONTINUED)

Included in the carrying amount of rigs and assets under construction held by the Group are interest costs arising from bank loans amounting to $919,000 (2011: $835,000) with a capitalisation rate of 1.97% – 6.73% (2011: 6.18% – 6.73%).

Impairment

Rigs & vessels

The rigs & vessels comprise a significant portion of the Group's assets. The Group evaluates, amongst other factors, the business outlook for the rigs & vessels, 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 loss from operations, extended periods of idle time and/or inability to contract specific assets or groups of assets.

For the purposes of impairment assessment, each rig and vessel is a separate CGU. A total of 10 (2011:8) CGUs have been identified. Management assessed the recoverable amounts of the rigs & vessels based on either their value in use, or fair value less costs to sell which is based on valuation reports by independent professional valuers.

At 31 December 2012, the carrying amounts of all of the Group's CGUs with carrying value of $307.2 million were lower than the recoverable amounts determined based on valuation reports issued by independent professional valuers, and therefore no impairment loss has been recognised.

In 2011, the recoverable amounts of 6 CGUs with carrying value of $139.6 million were determined based on valuation reports issued by independent professional valuers. The recoverable amounts of the remaining CGUs with carrying value of $194.1 million were based on value in use calculations based on the following key assumptions:

- Cash flows were projected based on past experience and actual operating results for the estimated remaining useful life of the rig;
- Charter rates were included based on actual contractual rates for FY2012 to FY2013. Day rates are expected to increase between 7.9% and 47.7% in FY2014. The increase in FY2014 reflects the anticipated rise in oil prices. Thereafter, charter rates increased at 2% p.a. for the subsequent years up to the end of the projection period;
- Utilisation rate of 90% was used in the cash flow computation;
- Pre-tax discount rate of 12% was applied in determining the recoverable amounts of the CGUs. The discount rate was estimated based on the similar industry's weighted average cost of capital; and
- Residual values of 10% were used in the cash flow computation.

Based on the above assessments, management recognised an impairment loss of $8,507,000 in "Other operating expenses" in 2011.

Depreciation of property, plant and equipment

Property, 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.

17 INTANGIBLE ASSETS

	Goodwill $'000	Computer software $'000	Customer lists $'000	Trade name $'000	Distribution agreements $'000	Other intangible assets $'000	Total $'000
Group							
Cost							
At 1 January 2011	25,443	2,203	9,910	3,491	7,116	10,929	59,092
Additions	–	436	–	–	–	–	436
Acquisition of subsidiary	5,348	159	–	–	–	1,985	7,492
Write-off	(13,232)	(1,126)	(2)	–	–	(2,754)	(17,114)
Translation differences	517	20	–	–	–	197	734
At 31 December 2011	18,076	1,692	9,908	3,491	7,116	10,357	50,640
Additions	–	181	–	–	–	–	181
Write-off	–	–	–	–	–	(7,152)	(7,152)
Translation differences	(316)	(21)	–	–	–	79	(258)
At 31 December 2012	17,760	1,852	9,908	3,491	7,116	3,284	43,411
Accumulated amortisation and impairment losses							
At 1 January 2011	13,004	747	3,152	1,339	2,254	10,616	31,112
Amortisation charge during the year	–	651	838	300	614	607	3,010
Write-off	(13,232)	(560)	–	–	–	(2,756)	(16,548)
Impairment losses	3,666	–	700	378	–	111	4,855
Translation differences	321	13	–	–	–	39	373
At 31 December 2011	3,759	851	4,690	2,017	2,868	8,617	22,802
Amortisation charge during the year	–	508	741	305	609	406	2,569
Write-off	–	–	–	–	–	(7,152)	(7,152)
Translation differences	(156)	(13)	–	–	–	222	53
At 31 December 2012	3,603	1,346	5,431	2,322	3,477	2,093	18,272
Carrying amount							
At 1 January 2011	12,439	1,456	6,758	2,152	4,862	313	27,980
At 31 December 2011	14,317	841	5,218	1,474	4,248	1,740	27,838
At 31 December 2012	14,157	506	4,477	1,169	3,639	1,191	25,139

17 INTANGIBLE ASSETS (CONTINUED)

Impairment testing for cash-generating units containing goodwill

The aggregate carrying amounts of goodwill are allocated as follows:

	2012 $'000	2011 $'000
Distribution business	10,761	10,765
Drilling business	2,669	2,825
Corporate and Engineering business	727	727
	14,157	14,317

For the purpose of impairment testing, goodwill is allocated to the Group's operating divisions or CGUs which represent the lowest level within the Group at which the goodwill is monitored for internal management purposes, which is not higher than the Group's operating segments as reported in Note 30.

The operating divisions or CGUs in its distribution business are Aqua-Terra Supply Co. Limited and SSH Corporation Ltd.

In 2011, the Group acquired PT Petro Papua Energi ("PT PPE") with the intention to open up opportunities for its drilling business in Indonesia. The goodwill arising from this acquisition is mainly attributable to PT PPE's track records which qualify the Group to tender for the drilling contracts with the oil majors in Indonesia. Accordingly, the goodwill has been attributed to the Group's operations in Indonesia which include PT PPE, PT KS Drilling Indonesia, PT Java Star Rig and PT Atlantic Oilfield Services.

The recoverable amount was determined based on its value in use. Value in use was determined by discounting the future cash flows generated from the continuing use of the CGU. The calculation of the value in use was based on the following key assumptions:

Distribution business

- Cash flows were projected based on past experience, actual operating results and the financial budgets approved by management for five years. The values assigned to the key assumptions represent management's assessment of future trends in the Group's distribution business and are based on both external sources and internal sources (historical data).

- Cash flows for the five-year period were extrapolated using a growth rate of 10% (2011: 10%) per annum which does not exceed the long-term average growth rate for the industry in which the CGU operates.

- Discount rate of 10% (2011: 10%) was applied. The discount rate was estimated based on the relevant industry average weighted average cost of capital.

- No terminal value was considered in the cash flows.

In 2012, based on the key assumptions, the recoverable amount of the goodwill exceeds its carrying amount.

In 2011, based on the key assumptions, the recoverable amount of goodwill was lower than its carrying value and accordingly, an impairment loss of $935,000 was recognised in "Other operating expenses".

17 INTANGIBLE ASSETS (CONTINUED)

Drilling business

- Charter rates were included based on contracted rates from FY2013 to FY2016 (2011: FY2012 to FY2016) and expected charter rates from FY2017 to FY2022 (2011: No expected charter rates);

- Utilisation rate of 90% (2011: 90%) for the underlying assets was used in the cash flow computation;

- No terminal value was considered in the cash flows (2011: terminal value at 2% growth rate); and

- Pre-tax discount rate of 12% (2011: 12%) was applied in determining the recoverable amount of the CGU. The discount rate used reflects the risk-free rate and the premium for specific risks relating to the business unit.

In 2012, based on the key assumptions, the recoverable amount of the goodwill exceeds its carrying amount.

In 2011, based on the key assumptions, the recoverable amount of goodwill was lower than its carrying value and accordingly, an impairment loss of $2,731,000 was recognised in "Other operating expenses".

Source of estimation uncertainty

Management uses judgements to determine the potential future cash flows to be determined from separable intangible assets acquired as part of business combinations. Any significant changes in the business environment and estimates can affect the carrying values of the intangible assets.

Other intangible assets

Other intangible assets comprise mainly non-compete agreements and other intangible assets.

The amortisation charge of other intangible assets is recognised in profit or loss under other operating expenses.

The carrying amount of the intangible assets is amortised on a straight-line basis over the remaining useful life of each intangible asset. Management reviews and revises the estimation of the remaining useful life of intangible assets at the end of each financial year. Any changes in the useful life of intangible assets would impact the amortisation charges and consequently affect the Group's result.

18 TRADE AND OTHER PAYABLES

	Group		Company	
	2012 $'000	2011 $'000	2012 $'000	2011 $'000
Current				
Trade payables:				
– Third parties	83,208	67,149	98	98
– Jointly controlled entities	–	3,072	–	–
– Companies in which a director of a subsidiary has substantial financial interests	1,968	3,493	–	–
	85,176	73,714	98	98
Non-trade payables:				
– Jointly controlled entities	410	306	–	–
– Companies in which a director of a subsidiary has substantial financial interests	2,033	10	–	–
Accrued operating expenses	21,939	31,060	1,513	4,134
Deposits received	1,044	425	–	–
Other payables	10,009	7,548	321	509
Financial liabilities at amortised cost	120,611	113,063	1,932	4,741
Deferred income	–	1,516	–	110
	120,611	114,579	1,932	4,851
Non-current				
Non-trade payables to a jointly controlled entity	3,056	3,235	3,056	3,235
Other payables	385	1,717	–	–
Financial liabilities at amortised cost	3,441	4,952	3,056	3,235
Total trade and other payables	124,052	119,531	4,988	8,086
Total financial liabilities at amortised cost	124,052	118,015	4,988	7,976

The amounts due to companies in which a director of a subsidiary has substantial financial interests and the non-trade amounts due to jointly controlled entities are unsecured, interest-free and are repayable on demand.

The non-current non-trade payables to a jointly controlled entity are unsecured, interest free and not expected to be repaid within the next 12 months.

Trade and other payables denominated in currencies other than the company's functional currency relate mainly to those denominated in United States dollars.

The Group and the Company's exposure to liquidity risk, foreign currency risk and interest rate risk are disclosed in Notes 20 and 27.

19 AMOUNTS DUE TO SUBSIDIARIES

	Company	
	2012	2011
	$'000	$'000
Non-trade payables:		
– Current	13,313	7,113
– Non-current	21,663	22,932
Financial liabilities at amortised cost	34,976	30,045

The amounts due to subsidiaries, which are mainly denominated in United States dollars, are unsecured, interest-free and repayable on demand except for an amount of $2,000,000 (2011: $2,500,000) which bears fixed interest at 3.5% per annum (2011: 3.5% per annum).

The Company's exposure to liquidity risk and foreign currency risk and interest rate risk is disclosed in Notes 20 and 27.

20 FINANCIAL LIABILITIES

	Group		Company	
	2012	2011	2012	2011
	$'000	$'000	$'000	$'000
Current				
Bills payable to banks (unsecured)	25,267	10,532	–	–
Secured bank loans	46,248	35,083	–	–
Unsecured bank loans	63,778	47,516	3,283	4,568
Convertible bonds	107,748	803	107,748	803
Finance lease liabilities	130	225	–	–
Interest rate swap	527	550	–	–
Embedded derivatives for sale/purchase orders denominated in other currencies	–	902	–	–
Option liability	–	11,263	–	11,263
	243,698	106,874	111,031	16,634
Non-current				
Secured bank loans	121,502	124,171	–	–
Unsecured bank loans	8,558	15,053	–	229
Convertible bonds	–	100,650	–	100,650
Finance lease liabilities	25	105	–	–
	130,085	239,979	–	100,879
Total financial liabilities	373,783	346,853	111,031	117,513
Financial liabilities at amortised cost	373,256	334,138	111,031	106,250
Financial liabilities at fair value through profit and loss	527	12,715	–	11,263
Total	373,783	346,853	111,031	117,513

20 FINANCIAL LIABILITIES (CONTINUED)

At 31 December 2012, a bank loan amounting to $43,898,000 is secured over the rights and benefits arising from a rig owned by a jointly controlled entity with the carrying amount of $83,553,000. In 2013, this loan has been fully discharged.

The remaining secured bank loans are secured over the rights and benefits arising from the Group's rigs with the carrying amount of $274,357,000 (2011: $310,771,000).

Finance lease liabilities

The secured finance lease liabilities relate to hire purchase liabilities secured on certain motor vehicles and office equipment of the Group and the Company.

Option liability

In 2010, the Company entered into an agreement with an external customer for the customer to acquire its 50% shares in a jointly controlled entity. The tenure of the option is based on the external charter contract that the Group has with the external customer which has a contractual period of 2 years with an option to extend for another year.

In 2011, management assessed the fair value of the option granted to the external customer which resulted in a loss of $8,575,000 recognised in the consolidated income statement under finance costs.

In 2012, a gain of $10,628,000 has been recognised in the consolidated income statement under other income upon the lapse of the option.

Terms and debt repayment schedule

Terms and conditions of outstanding loans and borrowings are as follows:

			2012		2011	
	Nominal interest rate	Year of maturity	Face value $'000	Carrying amount $'000	Face value $'000	Carrying amount $'000
Group						
Finance lease liabilities	2.2% – 3.5%	2013-2015	180	155	379	330
Convertible bonds	3%	2015	107,800	107,748	107,800	101,453
Bank loans (secured)	COF + 2.5% – 3.0%, 5.8%	2013-2018	229,760	167,750	189,716	159,254
Bank loans (unsecured)	1.6% – 5.4%	2013	77,107	72,336	66,005	62,569
Bills payable to banks	COF + 1.0% – 1.5%	2013	25,267	25,267	10,532	10,532
			440,114	373,256	374,432	334,138
Company						
Convertible bonds	3.0%	2015	107,800	107,748	107,800	101,453
Bank loans (unsecured)	2.5% – 5%	2013	8,056	3,283	8,235	4,797
			115,856	111,031	116,035	106,250

20 FINANCIAL LIABILITIES (CONTINUED)

Terms and debt repayment schedule (Continued)

The following are the expected contractual undiscounted cash outflows of financial liabilities, including interest payments and excluding the impact of netting agreements:

		Cash outflows		
	Carrying amount $'000	Contractual cash flows $'000	Within 1 year $'000	After 1 year but within 5 years $'000
Group				
2012				
Non-derivative financial liabilities				
Variable interest rate loans	240,086	251,619	115,219	136,400
Finance lease liabilities	155	180	153	27
Bills payable	25,267	25,391	25,391	–
Convertible bonds	107,748	107,748	107,748	–
Trade and other payables	124,052	124,052	120,611	3,441
	497,308	508,990	369,122	139,868
Derivative financial liabilities				
Interest rate swap (fair value through profit or loss)	527	673	507	166
2011				
Non-derivative financial liabilities				
Variable interest rate loans	221,823	232,143	83,692	148,451
Finance lease liabilities	330	379	249	130
Bills payable	10,532	10,532	10,532	–
Convertible bonds	101,453	110,958	820	110,138
Trade and other payables	118,015	118,015	113,063	4,952
	452,153	472,027	208,356	263,671
Derivative financial liabilities				
Interest rate swap (fair value through profit or loss)	550	1,355	657	698
Embedded derivatives for sale/purchase orders denominated in other currencies	902	(1,754)	(1,754)	–
	1,452	(399)	(1,097)	698

Notes to the Financial Statements

Year ended 31 December 2012

20 FINANCIAL LIABILITIES (CONTINUED)

Terms and debt repayment schedule (Continued)

			Cash outflows	
	Carrying amount $'000	Contractual cash flows $'000	Within 1 year $'000	After 1 year but within 5 years $'000
Company				
2012				
Non-derivative financial liabilities				
Variable interest rate loans	3,283	3,283	3,283	–
Convertible bonds	107,748	107,748	107,748	–
Trade and other payables	4,988	4,988	1,932	3,056
Amounts due to subsidiaries	34,976	34,976	13,313	21,663
	150,995	150,995	126,276	24,719
2011				
Non-derivative financial liabilities				
Variable interest rate loans	4,797	4,797	1,334	3,463
Convertible bonds	101,453	110,958	820	110,138
Trade and other payables	7,976	7,976	4,741	3,235
Amounts due to subsidiaries	30,045	30,045	7,113	22,932
	144,271	153,776	14,008	139,768

The maturity analysis shows the undiscounted cash flows of the Group and the Company's financial liabilities on the basis of their earliest possible contractual maturity.

For derivative financial instruments, the cash inflows/(outflows) represent the contractual undiscounted cash flows relating to these instruments. The amounts are compiled on a net basis for derivatives that are net-settled. Gross inflows and outflows are included for derivatives that are gross-settled on a simultaneous basis. Net-settled derivative financial assets are included in the maturity analyses as they are held to hedge the cash flow variability of the Group's floating rate loans.

The Group has secured bank loans which contain debt covenants. A breach of this covenant may require the Group to repay the loan earlier than indicated in the table above. The interest payments on variable interest rate loans in the table above reflect market forward interest rates at the period end and these amounts may change as market interest rates change. Except for these financial liabilities, it is not expected that the cash flows included in the maturity analysis of the Group and the Company could occur significantly earlier, or at significantly different amounts.

20 FINANCIAL LIABILITIES (CONTINUED)

Maturity of financial liabilities (excluding finance lease liabilities) are payable as follows:

	Group		Company	
	2012	2011	2012	2011
	$'000	$'000	$'000	$'000
Payable:				
– Within 1 year	363,652	206,997	126,276	17,225
– After 1 year but within 5 years	133,501	244,826	24,719	127,046
Total	497,153	451,823	150,995	144,271

The weighted average effective interest rates per annum relating to borrowings at the reporting dates for the Group and the Company are as follows:

	Group		Company	
	2012	2011	2012	2011
	%	%	%	%
Bills payable	2.00	2.23	–	–
Bank loans	3.20	3.36	2.68	3.36

The interest rates for the above bank borrowings reprice at intervals of one to six months.

Finance lease liabilities

At the reporting dates, the Group has obligations under finance leases that are payable as follows:

		2012			2011	
	Principal	Interest	Payments	Principal	Interest	Payments
	$'000	$'000	$'000	$'000	$'000	$'000
Group						
Payable:						
– Within 1 year	130	23	153	225	24	249
– After 1 year but within 5 years	25	2	27	105	25	130
Total	155	25	180	330	49	379

The Group and the Company's exposure to interest rate risk and foreign currency risk and sensitivity analysis for financial liabilities are disclosed in Note 27.

20 FINANCIAL LIABILITIES (CONTINUED)

Convertible bonds

	Group and Company	
	2012	2011
	$'000	$'000
Proceeds from the issue of convertible bonds	95,822	95,822
Transaction costs	(380)	(760)
Net proceeds	95,442	95,062
Amount classified as equity	(6,493)	(6,493)
Deferred tax	(1,330)	(1,330)
Accreted interest	19,326	14,214
Carrying amount of liability as at 31 December	106,945	101,453

Convertible bonds

In 2010, the Company issued $107,000,000 in principal amount of 3.00% convertible bonds ("Convertible Bonds") due in 2015 pursuant to the purchase agreement entered into with TAEL One Partners Ltd on 25 January 2010 and then with DnB NOR Bank ASA and TAEL One Partners Ltd on 12 May 2010. The main terms of the agreement are as follows:

(a) The Convertible Bonds are convertible into 66.875 million shares of the Company at an initial conversion price of $1.60 per share.

(b) The conversion right may be exercised at the option of the Bondholder, at any time until the date falling ten days prior to the Maturity date, on or about 26 March 2015, subject to customary closed periods.

(c) The Convertible Bonds can be mandatorily convertible on or at any time after the date 26 March 2013, in whole but not in part into shares of the Company on the date fixed for mandatory conversion, provided that no such mandatory conversion may be made unless the volume weighted average price of the shares for each of the 30 consecutive trading days, the last of which occurs not more than 5 days prior to the date on which notice of conversion is given, was at least 130 per cent of the then applicable conversion price.

(d) The Convertible Bonds can be fully redeemed at the holders' options on 26 March 2013 at 100% of the principal amount or held to maturity and redeemed on 26 March 2015 at 108.5% of the principal amount.

(e) The Convertible Bonds bear interest at the rate of 3.00% per annum, payable semi-annual basis.

(f) The yield-to-maturity is 7.00% per annum, calculated on a semi-annual basis.

(g) The Convertible Bonds become repayable on demand if there is a change of control of the Company or a delisting of the Company's shares.

In 2010, the amount of the Convertible Bonds classified as equity of $6,493,000 is net of attributable transaction costs of $1,213,000. Income tax recognised directly in equity in respect of the convertible bonds amounted to $1,330,000.

21 DEFERRED TAX

Movements in deferred tax assets and liabilities (prior to offsetting of balances) during the year are as follows:

	At 1 January 2011 $'000	Recognised in profit or loss (Note 7) $'000	Exchange differences $'000	At 31 December 2011 $'000	Recognised in profit or loss (Note 7) $'000	Exchange differences $'000	At 31 December 2012 $'000
Group							
Deferred tax liabilities							
Property, plant and equipment	4,766	533	134	5,433	(725)	(40)	4,668
Convertible bonds	1,330	–	–	1,330	–	–	1,330
	6,096	533	134	6,763	(725)	(40)	5,998

Deferred tax liabilities of the Company are attributable to the following:

	Company	
	2012 $'000	2011 $'000
Deferred tax liabilities		
Convertible bonds	1,330	1,330

Deferred tax assets have not been recognised in respect of the following items:

	Group		Company	
	2012 $'000	2011 $'000	2012 $'000	2011 $'000
Deductible temporary differences	60	4	60	4
Tax losses	19,178	12,531	6,322	5,540
	19,238	12,535	6,382	5,544

The tax losses are subject to agreement by the tax authorities and compliance with tax regulations in the respective countries in which certain subsidiaries operate. The deductible temporary differences do not expire under current tax legislations. Deferred tax assets have not been recognised in respect of these items because it is not probable that future taxable profit will be available against which the Group can utilise the benefits.

At 31 December 2012, deferred tax liabilities of $1,194,000 (2011: $694,000) for temporary differences of $26,890,000 (2011: $22,136,000) relating to investments in subsidiaries and jointly controlled entities have not been recognised as the Company is able to control the timing of the reversal of the temporary difference and it is probable that the temporary difference will not reverse in the foreseeable future.

22 SHARE CAPITAL

	Company 2012 No. of shares ('000)	Company 2011 No. of shares ('000)
Fully paid ordinary shares, with no par value:		
At 1 January	410,345	410,338
Issue of new shares due to conversion of warrants	–	7
At 31 December	410,345	410,345

Issuance of shares

In 2011, the Company issued 7,272 new ordinary shares upon the conversion of 7,272 warrants at an exercise price of $1.36.

Warrants

(i) In 2007, the Company issued 9 non-listed and non-transferable warrants for no consideration. Each warrant can be converted into 1,000,000 new ordinary shares in the share capital of the Company at $3.084 for cash commencing on 11 May 2008. The warrants expired on 11 May 2012.

(ii) 84,170,634 warrants were issued in 2009 which entitle the holder of each warrant to subscribe for new ordinary shares in the capital of the Company, at an exercise price of $1.40 each at any time from the date of issue of the warrants up to 28 July 2011. The warrants expired on 5 August 2011.

Capital management

The Board's policy is to maintain an adequate capital base so as to maintain investor, creditor and market confidence and to sustain future development of the business. Capital consists of total shareholders' equity, excluding non-controlling interests. The Board of Directors monitors the return on capital, which the Group defines as net operating income divided by total shareholders' equity excluding non-controlling interests. The Board also monitors the level of dividends to ordinary shareholders.

The Board seeks to maintain a balance between the higher returns that might be possible with higher levels of borrowings and the advantages and security afforded by a sound capital position. In view of the challenging business and industry conditions, the Group endeavours to achieve a return on shareholders' equity to be above 15% per annum; in 2012 the return was 0.5% (2011: negative 24.5%). In comparison, the weighted average interest expense on interest-bearing borrowings (excluding liabilities with imputed interest) was 3.20% (2011: 3.36%).

From time to time, the Company purchases its own shares on the market; the timing of these purchases depends on market prices. Buy and sell decisions are made on a specific transaction basis by the Board; the Company does not have a defined shares buy-back plan. This amount is classified as a deduction from equity under "Treasury shares". At 31 December 2012, the Company held 11,308,000 (2011: 11,308,000) of its own uncancelled shares.

There were no changes in the Group's approach to capital management during the year. The Company and its subsidiaries are not subjected to any externally imposed capital requirements.

23 RESERVES

Equity reserve

The equity reserve relates to the fair value of warrants issued by the Company and the equity component of the convertible bonds based on the value of the embedded option to convert the liability component of the convertible bonds into equity of the Company as at the date of issue of the convertible bonds, which is net of deferred tax effect.

Treasury shares

Treasury shares comprise the cost of the Company's shares held by the Group.

Foreign currency translation reserve

The foreign currency translation reserve comprises foreign currency differences arising from the translation of the financial statements of foreign operations whose functional currencies are different from that of the Company, as well as from the translation of foreign currency loans which form part of the Group's net investment in foreign operations.

Other reserve

Other reserve comprise (i) the Group's share of the excess of the purchase consideration over the net assets of the additional non-controlling interests acquired (including transaction costs) and (ii) gain on dilution of the interests in a subsidiary without loss of control.

Dividends

No dividend has been declared or proposed in respect of the financial years ended 31 December 2012 and 2011.

24 EQUITY COMPENSATION BENEFITS

Under the terms of the KS Energy Employee Share Option Scheme (the "Scheme"), subject to the absolute discretion of the Committee, options may be granted, to the Group's employees, executive directors and non-executive directors provided that certain criteria are met. Subject to the absolute discretion of the Committee, Controlling Shareholders and their Associates who meet certain criteria are eligible to participate in the Scheme, provided that the participation of each Controlling Shareholder or his Associate and each grant of an option to any of them may only be effected with the specific prior approval of Shareholders in general meeting by a separate resolution.

The aggregate number of ordinary shares over which options may be granted on any date under the Scheme, when added to the number of ordinary shares issued and/or issuable in respect of:

- all options granted under the Scheme;
- all contingent award of ordinary shares granted pursuant to the rules of the Plan; and
- all ordinary shares in the capital of the Company, options or awards granted under any other share option or share scheme of the Company then in force;

24 EQUITY COMPENSATION BENEFITS (CONTINUED)

shall not exceed 15% of the total number of issued ordinary shares, excluding treasury shares, in the capital of the Company on the day preceding the relevant date of grant. Furthermore, the aggregate number of ordinary shares over which options may be granted under the Scheme to Controlling Shareholders and their Associates shall not exceed 25% of the ordinary shares available under the Scheme, and the number of ordinary shares over which options may be granted under the Scheme to each Controlling Shareholder or his Associate shall not exceed 10% of the ordinary shares available under the Scheme.

The Scheme shall continue to be in force at the discretion of the Committee, subject to a maximum period of ten years commencing on the date on which the Scheme is adopted by shareholders of the Company in general meeting, provided that the Scheme may continue beyond the aforesaid period of time with the approval of shareholders of the Company in general meeting and of any relevant authority which may then be required.

The subscription price of the options shall be fixed by the Committee at its absolute discretion at:

- the Market Price, determined by reference to the price equal to the average of the last dealt prices for a Share, as determined by reference to the daily official list or other publication published by the SGX for five consecutive market days immediately preceding the offer date of that option, rounded up to the nearest whole cent in the event of fractional prices;

- or at a discount to the Market Price, the quantum of such discount to be determined by the Committee at its absolute discretion, provided that the maximum discount shall not exceed 20% of the Market Price and is approved by shareholders of the Company in general meeting in a separate resolution.

Options granted with the Exercise Price set at the Market Price may be exercised at any time after the first anniversary of the date of grant, provided that the option shall be exercised before the tenth anniversary of the date of grant or such earlier date as may be determined by the Committee, failing which the unexercised option shall immediately be null and void.

Options granted with the Exercise Price set at a discount to the Market Price may be exercised at any time after the second anniversary of the date of grant, provided that the option shall be exercised before the tenth anniversary of the date of grant or such earlier date as may be determined by the Committee, failing which the unexercised option shall immediately be null and void.

No options have been granted since the commencement of the Scheme.

25 ACQUISITIONS OF SUBSIDIARIES AND NON-CONTROLLING INTERESTS

(a) Acquisition of additional interest in KSAM2 Petrodrill Offshore Inc. ("KSAM2") in 2012

On 25 November 2012, the Group acquired the remaining 50% interest in KSAM2. The carrying amount of KSAM2's net liability in the Group's financial statements on the date of acquisition was $1,434,000 and was recognised as a loss in "Other operating expenses".

The effect of the acquisition of a subsidiary is set out below:

	Note	2012 $'000
Cash and cash equivalents		122
Investment in jointly controlled entities		7,987
Trade receivables		–
Trade and other payables		(9,543)
Net liabilities acquired		(1,434)
Loss on acquisition of additional interest in a jointly controlled entity	5	1,434
Total cash consideration paid		–
Cash acquired		(122)
Net cash inflow		(122)

(b) Acquisition of a new subsidiary in 2011

On 6 May 2011, the Group acquired 60% of the issued and paid up capital of PT Petro Papua Energi ("PT PPE"), a company incorporated in Indonesia.

PT PPE contributed a net loss of $1,848,000 (US$1,477,000) to the Group's consolidated net loss after tax and non-controlling interests for the year ended 31 December 2011.

If the above acquisition had occurred on 1 January 2011, the Group's revenue would have been $492,738,000 and net loss after tax would have been $88,112,000.

The effect of the acquisition of a subsidiary is set out below:

	Note	2011 $'000
Property, plant and equipment	16	2,076
Intangible assets	17	2,144
Other current assets		753
Cash and cash equivalents		523
Trade and other payables		(4,138)
Finance lease liabilities		(49)
Deferred tax liabilities		(497)
Net identifiable assets and liabilities		812
Non-controlling interest		271
Net assets acquired		1,083
Goodwill on acquisition	17	5,348
Total cash consideration paid		6,431
Cash acquired		(523)
Net cash outflow		5,908

25 ACQUISITIONS OF SUBSIDIARIES AND NON-CONTROLLING INTERESTS (CONTINUED)

(c) Changes in Drilling business in 2011

In 2011, KS Drilling Pte Ltd ("KS Drilling") increased its paid up share capital from US$1 to US$226,196,000 through the issue and allotment of new shares as follows:

i) 44,539,000 new preferred shares and 133,616,999 ordinary shares to the Company for a consideration of $218,241,000 (US$178,155,999) by way of capitalisation of shareholder loans; and

ii) 44,539,000 new preferred shares to Itochu Corporation for a cash consideration of $58,851,000 (US$48,040,000), representing 20% interest in the total paid up share capital of KS Drilling.

As a result, the Company's interest in KS Drilling was diluted from 100% to 80%.

26 RELATED PARTIES

Key management personnel compensation

Key management personnel are directors and those persons having authority and responsibility for planning, directing and controlling the activities of the Group, directly or indirectly. The amounts stated below for key management compensation are for all the executive directors and other key management personnel. The amounts do not include compensation of any of the key management personnel and directors of the Group who received compensation from related corporations outside the Group in their capacity as directors and/or executives of those related corporations.

Key management personnel compensation, included in staff costs, is as follows:

	Group	
	2012	**2011**
	$'000	**$'000**
Short-term employee benefits	4,258	6,085
Post-employment benefits	91	122
	4,349	6,207

Included in key management personnel compensation is directors' remuneration of the Company of $927,000 (2011: $2,588,000).

26 RELATED PARTIES (CONTINUED)

Other transactions with key management personnel

	Group 2012 $'000	Group 2011 $'000
Transactions with companies in which directors of the Company have control or significant influence		
Sale of goods	101,545	6,311
Purchase of goods	–	(5,591)
Professional fees	(149)	(156)
Cost recovery	–	388
Operating lease income	–	35
Purchase of property	–	(676)
Interest income	38	–
Interest expense	(5)	–

There are no transactions with companies in which other key management personnel have control or significant influence.

From time to time, key management personnel of the Group, or their related entities, may purchase goods from the Group. These purchases are on the same terms and conditions as those entered into by other Group employees or customers.

Other related party transactions

	Group 2012 $'000	Group 2011 $'000
Transactions with jointly controlled entities		
Sale of goods	86,885	2,099
Purchase of goods	–	(12,467)
Interest income	38	490
Management fee income	23	401
Corporate guarantee fee income	110	–
Rendering of services	5,365	–
Interest expense	(5)	–
Transactions with associates		
Management fee income	10	10

27 FINANCIAL RISK MANAGEMENT

Overview

The Group has exposure to the following risks:

- credit risk
- liquidity risk
- market risk

This note presents information about the Group's exposure to each of the above risks, the Group's objectives, policies and processes for measuring and managing those risks.

Risk management framework

The Board of Directors has overall responsibility for the establishment and oversight of the Group's risk management framework. The Group's risk management policies are established to identify and analyse the risks faced by the Group, to set appropriate risk limits and controls, and to monitor risks and adherence to limits. The Group has a system of controls in place to create an acceptable balance between the cost of risks occurring and the cost of managing the risks. The management continually monitors the Group's risk management process to ensure that an appropriate balance between risk and control is achieved. Risk management policies and systems are reviewed regularly to reflect changes in market conditions and the Group's activities.

The Audit Committee oversees how management monitors compliance with the Group's risk management policies and procedures and reviews the adequacy of the risk management framework in relation to the risks faced by the Group. The Audit Committee is assisted in its oversight role by Internal Auditors. The Internal Auditors undertake both regular and ad hoc reviews of risk management controls and procedures, the results of which are reported to the Audit Committee.

Financial instruments by category

Set out below is a comparison by category of carrying amounts of all the Group's financial instruments that are carried in the financial statements:

	Note	Loans and receivables $'000	Financial derivative assets $'000	Financial liabilities at amortised cost $'000	Financial liabilities at fair value through profit or loss $'000	Total $'000
Group						
2012						
Assets						
Cash and cash equivalents	9	60,684	–	–	–	60,684
Trade receivables	11	165,441	–	–	–	165,441
Other assets	13	138,426	–	–	–	138,426
		364,551	–	–	–	364,551
Liabilities						
Trade and other payables	18	–	–	124,052	–	124,052
Financial liabilities	20	–	–	373,256	527	373,783
		–	–	497,308	527	497,835

27 FINANCIAL RISK MANAGEMENT (CONTINUED)

Financial instruments by category (Continued)

	Note	Loans and receivables $'000	Financial derivative assets $'000	Financial liabilities at amortised cost $'000	Financial liabilities at fair value through profit or loss $'000	Total $'000
Group						
2011						
Assets						
Cash and cash equivalents	9	58,610	–	–	–	58,610
Trade receivables	11	137,454	–	–	–	137,454
Other assets	13	58,253	635	–	–	58,888
		254,317	635	–	–	254,952
Liabilities						
Trade and other payables	18	–	–	118,015	–	118,015
Financial liabilities	20	–	–	334,138	12,715	346,853
		–	–	452,153	12,715	464,868
Company						
2012						
Assets						
Cash and cash equivalents	9	746	–	–	–	746
Amounts due from subsidiaries	10	11,045	–	–	–	11,045
Other assets	13	195	–	–	–	195
		11,986	–	–	–	11,986
Liabilities						
Trade and other payables	18	–	–	4,988	–	4,988
Amounts due to subsidiaries	19	–	–	34,976	–	34,976
Financial liabilities	20	–	–	111,031	–	111,031
		–	–	150,995	–	150,995
2011						
Assets						
Cash and cash equivalents	9	2,429	–	–	–	2,429
Amounts due from subsidiaries	10	10,682	–	–	–	10,682
Other assets	13	219	635	–	–	854
		13,330	635	–	–	13,965
Liabilities						
Trade and other payables	18	–	–	7,976	–	7,976
Amounts due to subsidiaries	19	–	–	30,045	–	30,045
Financial liabilities	20	–	–	106,250	11,263	117,513
		–	–	144,271	11,263	155,534

27 FINANCIAL RISK MANAGEMENT (CONTINUED)

Credit risk

Credit risk is the risk of financial loss resulting from the failure of a customer or counterparty to a financial instrument fails to meet its contractual obligations, and arises principally from the Group's receivables from customers.

The carrying amount of financial assets in the statement of financial position represents the Group and the Company's respective maximum exposure to credit risk, before taking into account any collateral held. The Group and the Company does not hold any collateral in respect of its financial assets.

Guarantees

Credit risk relating to financial guarantee contracts represents the financial loss that would be recognised upon a default by the parties on whose behalf the financial guarantees were issued.

Trade and other receivables

The Group has a credit policy in place which establishes credit limits for customers and monitors their balances on an on-going basis. Credit evaluations are performed on all customers requiring credit over a certain amount. Investments and transactions involving derivative financial instruments are allowed only with counterparties who have sound credit ratings.

At 31 December, the Group has concentration of credit risk in 3 (2011: 3) major trade debtors representing approximately 26% (2011: 23%) of total trade receivables. The maximum exposure to credit risk is represented by the carrying amount of each financial asset, including derivative financial instruments, in the statement of financial position.

The Group does not require collateral in respect of trade and other receivables.

The Group establishes an allowance for impairment that represents its estimate of incurred losses in respect of trade receivables. The main components of this allowance are a specific loss component that relates to individually significant exposures, and a collective loss component established for groups of similar assets in respect of losses that have been incurred but not yet identified. The collective loss allowance is determined based on historical data of payment statistics for similar financial assets.

The allowance account in respect of trade receivables is used to record impairment losses unless the Group is satisfied that no recovery of the amount owing is possible. At that point, the financial asset is considered irrecoverable and the amount charged to the allowance account is written off against the carrying amount of the impaired financial asset.

Cash and fixed deposits are placed with banks and approved financial institutions. The Group limits its credit risk exposure in respect of investments by only investing in liquid securities.

27 FINANCIAL RISK MANAGEMENT (CONTINUED)

Exposure to credit risk

The carrying amount of financial assets represents the maximum credit exposure. The Group and Company's maximum exposure to credit risk at the reporting date were:

		Group Carrying amount		Company Carrying amount	
	Note	**2012 $'000**	**2011 $'000**	**2012 $'000**	**2011 $'000**
Loans and receivables					
Cash and cash equivalents	9	60,684	58,610	746	2,429
Amounts due from subsidiaries	10	–	–	11,045	10,682
Trade receivables	11	165,441	137,454	–	–
Other assets (current)	13	100,057	58,253	195	219
Other assets (non-current)	13	38,369	–	–	–
		364,551	254,317	11,986	13,330

The Group's top three most significant customers account for $43,086,000 (2011: $32,193,000) of the trade receivables carrying amount at 31 December 2012. Except for this, there is no significant concentration of credit risk. The Group's customers are internationally dispersed. The Group's historical experience in the collection of accounts receivable falls within the recorded allowances. Due to these factors, management believes that no additional credit risk beyond amounts provided for collection losses is inherent in the Group's trade receivables.

The maximum exposure to credit risk for loans and receivables at the reporting date by business segments was:

	Group Carrying amount		Company Carrying amount	
	2012 $'000	**2011 $'000**	**2012 $'000**	**2011 $'000**
Loans and receivables				
Distribution	171,440	141,130	–	–
Drilling	183,436	94,911	–	–
Corporate and Engineering	9,675	18,276	11,986	13,330
	364,551	254,317	11,986	13,330

27 FINANCIAL RISK MANAGEMENT (CONTINUED)

Impairment losses

The ageing of loans and receivables (excluding cash and cash equivalents) as at 31 December is:

	2012		2011	
	Gross $'000	Impairment loss $'000	Gross $'000	Impairment loss $'000
Group				
Not past due	197,702	–	107,295	–
Past due 0 – 30 days	26,806	–	30,402	–
Past due 31 – 120 days	43,894	–	35,133	–
Past due more than 120 days	57,811	(22,346)	37,150	(14,273)
	326,213	(22,346)	209,980	(14,273)
Company				
Not past due	11,240	–	10,901	–
Past due more than 120 days	761	(761)	748	(748)
	12,001	(761)	11,649	(748)

The change in impairment loss in respect of amounts due from subsidiaries, trade receivables and other current assets during the year is as follows:

	Group		Company	
	Individual impairments $'000	Collective impairments $'000	Individual impairments $'000	Collective impairments $'000
At 1 January 2011	(12,497)	–	(10)	–
Impairment loss recognised (Note 5)	(2,179)	–	(738)	–
Allowance utilised	471	–	–	–
Translation differences	(68)	–	–	–
At 31 December 2011	(14,273)	–	(748)	–
Impairment loss recognised (Note 5)	(6,382)	(2,414)	(102)	–
Allowance utilised	1,059	–	–	–
Acquisition of subsidiaries	(1,141)	–	–	–
Translation differences	805	–	89	–
At 31 December 2012	(19,932)	(2,414)	(761)	–

Allowance for doubtful receivables

Management uses judgement to determine the allowance for doubtful receivables which are supported by historical write-off, credit history of the customers and repayment records. The Group reviews its allowance for doubtful receivables monthly. Balances which are overdue are reviewed individually for collectibility. Accounts balances are charged off against the allowance after all means of collection have been exhausted and the potential for recovery is considered remote. Actual results could differ from estimates.

The Group and the Company believes that the unimpaired amounts are still collectible, based on historic payment behaviour and analysis of customer credit risk, including underlying customers' credit ratings, when available.

27 FINANCIAL RISK MANAGEMENT (CONTINUED)

Liquidity risk

Liquidity risk is the risk that the Group will encounter difficulty in meeting the obligations associated with its financial liabilities that are settled by delivering cash or another financial asset. The Group's approach to managing liquidity is to ensure, as far as possible, that it will always have sufficient liquidity to meet its liabilities when due, under both normal and stressed conditions, without incurring unacceptable losses or risking damage to the Group's reputation.

The Group monitors its liquidity risk and maintains a level of cash and cash equivalents deemed adequate by management to finance the Group's operations and to mitigate the effects of fluctuations in cash flows.

The management of liquidity and funding is primarily carried out centrally by the treasury department for project companies and locally by other Group entities. The Group requires its operating entities to maintain adequate liquidity positions and to manage its liquidity profiles of their assets, liabilities and commitments with the objective of ensuring that their cash flows are balanced appropriately and that all their anticipated obligations can be met when due. The Group adapts its liquidity and funding risk management framework in response to changes in the mix of business that it undertakes, and to changes in the nature of the markets in which it operates. The Group has continuously monitored the impact of recent market events on the Group's liquidity position and has changed behavioural assumptions where justified. The liquidity and funding risk management framework will continue to evolve as the Group assimilates knowledge from the recent market events.

Refer to Note 20 for the expected contractual undiscounted cash outflows of financial liabilities of the Group and the Company at the reporting date.

The directors are of the opinion that the Group and the Company are able to meet their obligations for the next financial year as and when they fall due having regard to the following:

(i) The directors have carried out a review of the cash flow forecasts of the Group and the Company for the next 12 months ending 31 December 2013 prepared by management. Based on such forecasts, the directors have estimated that adequate liquidity exists to finance the working capital requirements of the Group and the Company for the next financial year. In reviewing the cash flow forecasts, the directors have considered the cash requirements of the Group and the Company as well as other key factors, including the ability of the Group to generate sufficient revenue to satisfy the Group and the Company's future working capital needs, which may impact the operations of the Group and the Company during the next financial year. The directors are of the opinion that the assumptions which are included in the cash flow forecasts are reasonable; and

(ii) The Company has standby financial arrangements and continually monitors its funding facilities which will provide adequate funds to meet the funding needs of the Group and the Company if the need arises.

27 FINANCIAL RISK MANAGEMENT (CONTINUED)

Market risk

Market risk is the risk that changes in market prices, such as foreign exchange rates and interest rates will affect the Group's income. The objective of market risk management is to manage and control market risk exposures within acceptable parameters, while optimising the return.

Interest rate risk

The Group's exposure to changes in interest rates relates primarily to its interest-earning financial assets and interest-bearing financial liabilities. Interest rate risk is managed by the Group on an on-going basis with the primary objective of limiting the extent to which net interest expense could be affected by an adverse movement in interest rates. The Group entered into interest rate swap arrangements and also incurred financial liabilities in order to manage market risks in respect of certain variable rate term loan borrowings.

Profile

At the reporting date, the interest rate profile of the Group's interest-bearing financial instruments, as reported to the management, was as follows:

	Group Nominal amount		Company Nominal amount	
	2012 $'000	2011 $'000	2012 $'000	2011 $'000
Fixed rate instruments				
Financial assets	82,864	727	5,967	10,271
Financial liabilities	(222,310)	(200,599)	(110,029)	(110,300)
	(139,446)	(199,872)	(104,062)	(100,029)
Variable rate instruments				
Financial assets	60,087	57,883	705	2,386
Financial liabilities	(150,998)	(139,886)	(3,054)	(4,797)
	(90,911)	(82,003)	(2,349)	(2,411)

Fair value sensitivity analysis for fixed rate instruments

The Group does not account for any fixed rate financial assets and liabilities at fair value through profit or loss. Therefore a change in interest rates at the reporting dates would not affect profit or loss.

27 FINANCIAL RISK MANAGEMENT (CONTINUED)

Interest rate risk (Continued)

Cash flow sensitivity analysis for variable rate instruments

A change of 100 basis points in interest rates at the end of the financial year would have increased/(decreased) profit before tax by the amounts shown below. This analysis assumes that all other variables, in particular foreign currency rates, remain constant. The analysis is performed on the same basis for 2012 and 2011.

	Group Profit before tax		Company Profit before tax	
	100 bp increase $'000	100 bp decrease $'000	100 bp increase $'000	100 bp decrease $'000
31 December 2012				
Variable rate instruments	(909)	909	(23)	23
Interest rate swap	219	(219)	–	–
Cash flow sensitivity (net)	(690)	690	(23)	23
31 December 2011				
Variable rate instruments	(820)	820	(24)	24
Interest rate swap	418	(418)	–	–
Cash flow sensitivity (net)	(402)	402	(24)	24

To reduce the Group's interest rate exposure in respect of the variable rate instruments and effectively convert term loan borrowings from floating interest rate basis to fixed interest rate basis, the Group entered into interest rate swap contracts with financial institutions. At the reporting date, the Group has two (2011: five) interest rate swap contracts classified as derivative financial instruments to hedge against the variable interest rates arising from the Group's variable rate borrowings.

Foreign currency risk

The Group is exposed to foreign currency risk on sales, purchases and borrowings, including inter-company sales, purchases and inter-company balances, that are denominated in currencies other than the respective functional currencies of Group entities. The currencies giving rise to this risk are primarily the United States dollars and Euro.

In respect of other monetary assets and liabilities held in currencies other than the functional currencies of respective entities, the Group ensures that the net exposure is kept to an acceptable level by buying currencies at spot rates, where necessary, to address short term imbalances.

27 FINANCIAL RISK MANAGEMENT (CONTINUED)

Foreign currency risk (Continued)

The summary of quantitative data about the Group's and Company's exposure to foreign currency risks as provided to the management of the Group based on its risk management policy as follows:

	Singapore dollars $'000	US dollars $'000	Euro $'000	Others $'000	Total $'000
Group					
2012					
Cash and cash equivalents	9,452	37,939	1,320	11,973	60,684
Trade and other receivables	67,849	205,798	16,649	24,279	314,575
Inter-company balances	176	(98,258)	24	(34)	(98,092)
Trade and other payables	(36,237)	(57,969)	(17,299)	(12,547)	(124,052)
Financial liabilities	(153,149)	(188,853)	(30,788)	(993)	(373,783)
Net financial assets/(liabilities)	(111,909)	(101,343)	(30,094)	22,678	(220,668)
Less: Net financial (assets)/liabilities denominated in the respective entities' functional currency	110,040	61,422	–	441	171,903
	(1,869)	(39,921)	(30,094)	23,119	(48,765)
2011					
Cash and cash equivalents	13,322	33,793	984	10,511	58,610
Trade and other receivables	75,761	110,043	3,957	16,562	206,323
Inter-company balances	2,873	(106,832)	207	–	(103,752)
Trade and other payables	(35,759)	(57,112)	(18,412)	(8,248)	(119,531)
Financial liabilities	(135,425)	(210,270)	–	(1,158)	(346,853)
Net financial assets/(liabilities)	(79,228)	(230,378)	(13,264)	17,667	(305,203)
Less: Net financial (assets)/liabilities denominated in the respective entities' functional currency	80,446	180,229	–	(15,154)	245,521
Less: Sale/purchase order denominated in other currencies	–	122	779	–	901
	1,218	(50,027)	(12,485)	2,513	(58,781)

27 FINANCIAL RISK MANAGEMENT (CONTINUED)

Foreign currency risk (Continued)

	Singapore dollars $'000	US dollars $'000	Euro $'000	Others $'000	Total $'000
Company					
2012					
Cash and cash equivalents	541	148	44	13	746
Trade and other receivables	388	113	–	–	501
Inter-company balances	(1,916)	(22,015)	–	–	(23,931)
Quasi equity loans to subsidiaries and jointly controlled entities	–	42,877	–	–	42,877
Trade and other payables	(1,825)	(3,163)	–	–	(4,988)
Financial liabilities	(107,976)	(3,055)	–	–	(111,031)
Net financial assets/(liabilities)	(110,788)	14,905	44	13	(95,826)
Less: Net financial (assets)/liabilities denominated in the Company's functional currency	110,788	–	–	–	110,788
	–	14,905	44	13	14,962
2011					
Cash and cash equivalents	660	1,710	46	13	2,429
Trade and other receivables	517	635	–	3	1,155
Inter-company balances	(2,767)	(16,596)	–	–	(19,363)
Quasi equity loans to subsidiaries and jointly controlled entities	–	61,496	–	–	61,496
Trade and other payables	(4,637)	(3,449)	–	–	(8,086)
Financial liabilities	(103,015)	(14,498)	–	–	(117,513)
Net financial assets/(liabilities)	(109,242)	29,298	46	16	(79,882)
Less: Net financial (assets)/liabilities denominated in the Company's functional currency	109,242	–	–	–	109,242
	–	29,298	46	16	29,360

27 FINANCIAL RISK MANAGEMENT (CONTINUED)

Sensitivity analysis

A 10% strengthening of the Singapore dollar, as indicated below, against the foreign currencies at 31 December would have increased/(decreased) the profit before tax by the amounts shown below. This analysis is based on foreign currency exchange rate variances that the Group considered to be reasonably possible at the end of the reporting period. The analysis assumes that all other variables, in particular interest rates, remain constant and ignores any impact of forecasted sales and purchases. The analysis is performed on the same basis for 2011, as indicated below:

	Group Profit before tax		Company Profit before tax	
	2012 $'000	2011 $'000	2012 $'000	2011 $'000
Singapore dollars	(187)	122	–	–
US dollars	3,992	5,003	(1,491)	(2,930)
Euro	3,009	1,249	(4)	(5)
Others	(231)	(251)	(1)	(2)

A weakening of Singapore dollars against the above currencies at 31 December would have had the equal but opposite effect on the above currencies to the amounts shown above, on the basis that all other variables remain constant.

Insurance risk

The Company issues financial guarantees on behalf of its subsidiaries and jointly controlled entities. There are no terms and conditions attached to the financial guarantee contracts that would have a material effect on the amount, timing and certainty of the Company's future cash flows. Estimates of the Company's obligations arising from financial guarantee contracts may be affected by future events, which cannot be predicted with certainty. The assumptions made may vary from actual experience so that the actual liability may vary considerably from the best estimates.

See Note 29 for information on the periods in which the financial guarantees will expire and the contractual undiscounted cash flow in respect of the financial guarantees.

Equity price risk

The Group is not significantly exposed to equity price risk.

Determination of fair values

Fair values

The carrying amounts of the Group and the Company's financial instruments carried at cost or amortised cost are not materially different from their fair values as at 31 December 2012 and 2011.

The following summarises the significant methods and assumptions used in estimating the fair values of financial instruments of the Group at the reporting date.

27 FINANCIAL RISK MANAGEMENT (CONTINUED)

Determination of fair values (Continued)

Convertible bonds

The fair value is calculated based on the present value of future principal and interest cash flows, discounted at the market rate of interest at the reporting date. In respect of the liability component of convertible bonds, the market rate of interest is determined by reference to similar liabilities that do not have a conversion option.

Derivatives

The fair value of the option liability represents the potential loss upon the sale of the shares in the jointly controlled entity. The potential loss is derived based on the difference between the agreed transfer price of the shares in a jointly controlled entity and the estimated market value of the shares.

The fair value of embedded derivatives arising from sales and purchase orders denominated in currencies other than the functional currency is estimated by discounting the difference between the contractual forward price and the current forward price.

The fair value of interest rate swaps is based on broker quotes.

Non-derivative financial assets and liabilities

Fair value, which is determined for disclosure purposes, is calculated based on the present value of future principal and interest cash flows, discounted at the market rate of interest at the reporting dates. For finance leases, the market rate of interest is determined by reference to similar lease agreements.

Other financial assets and liabilities

The notional amounts of financial assets and liabilities with a maturity of less than one year (including trade and other receivables, cash and cash equivalents, and trade and other payables) are assumed to approximate their fair values because of the short period to maturity. All other financial assets and liabilities are discounted to determine their fair values.

Fair value hierarchy

The table below analyses financial instruments carried at fair value, by valuation method. The different levels have been defined as follows:

- Level 1: quoted prices (unadjusted) in active markets for identical assets or liabilities
- Level 2: inputs other than quoted prices included within Level 1 that are observable for asset or liability, either directly (i.e., as prices) or indirectly (i.e., derived from prices)
- Level 3: inputs for the asset or liability that are not based on observable market data (unobservable inputs).

27 FINANCIAL RISK MANAGEMENT (CONTINUED)

Fair value hierarchy (Continued)

	Level 1 $'000	Level 2 $'000	Level 3 $'000	Total $'000
Group				
2012				
Derivative financial liabilities	–	(527)	–	(527)
2011				
Derivative financial assets	–	635	–	635
Derivative financial liabilities	–	(12,715)	–	(12,715)
	–	(12,080)	–	(12,080)
Company				
2011				
Derivative financial assets	–	635	–	635
Derivative financial liabilities	–	(11,263)	–	(11,263)
	–	(10,628)	–	(10,628)

During the year, there were no transfers of derivative financial instruments between the Levels.

28 COMMITMENTS

Capital commitments

On 26 May 2011, the Company announced that its subsidiary, KS Drilling, entered into two contracts dated 26 May 2011 with COSCO Shipyard for the construction and delivery of two jack-up drilling rigs based on the LeTourneau WORKHORSE® Class design (each a "New Build Contract" and together, the "New Build Contracts"). The first jack-up drilling rig ("Rig No. 1") is expected to be delivered within 27 months from the effective date of the relevant New Build Contract, while the second jack-up drilling rig ("Rig No. 2") is expected to be delivered within 32 months after the same date.

On 5 October 2011, the Company announced that the Ordinary Resolution for the ratification of the New Build Contracts has been passed by shareholders at the Extraordinary General Meeting of the Company held on 5 October 2011.

As at 31 December 2012, the capital commitment in respect of the New Build Contracts was $413,416,000 (2011: $437,631,000).

In addition, the Group has entered into other contracts to acquire plant and equipment of $41,785,000 (2011: $7,429,000).

28 COMMITMENTS (CONTINUED)

Operating lease commitments

Offices and warehouses

The Group leases from Jurong Town Corporation and other owners for office and warehousing premises. The lease from the Jurong Town Corporation is for 30 years from 1 May 2002 and is subject to an escalation clause but the amount of the rent increase is not to exceed a certain percentage. Such increases are not included in the amounts below.

The leases from other owners are negotiated for an average term of 1 to 3 years at prevailing market terms.

Where the Group and the Company are lessees:

At the reporting dates, the Group has commitments for future minimum lease payments under non-cancellable operating leases as follows:

	Group	
	2012 $'000	2011 $'000
Within 1 year	6,077	3,574
After 1 year but within 5 years	6,898	4,124
After 5 years	6,917	8,561
	19,892	16,259

Where the Group is a lessor:

At the reporting dates, the Group has future minimum lease payments receivable under non-cancellable operating leases as follows:

	Group	
	2012 $'000	2011 $'000
Within 1 year	151	2,577
After 1 year but within 5 years	466	3,993
After 5 years	991	1,096
	1,608	7,666

29 CONTINGENT LIABILITIES (UNSECURED)

Group

Claim by BR Energy (M) Sdn Bhd

On 28 October 2009, the Company was served with a Writ of Summons ("the Writ") in respect of a claim by BR Energy (M) Sdn Bhd ("BRE") for alleged breach of the BR Offshore Services Limited ("BROS") joint venture agreement entered into between the parties in March 2006. The trial on the liability was completed on 30 March 2012.

On 22 March 2013, the Company announced in a case update that BRE had obtained judgment on liability in its favour with costs and its claim for damages (including interest, if any) is to be assessed by the Registrar of the Supreme Court. The Company is consulting its lawyers on the next course of action, including the possibility of an appeal.

Management has been advised by its external lawyers that there is sufficient evidence to support its defense against BRE's claim for damages. Accordingly, no provision for the contingent liability has been made at 31 December 2012 and 2011.

Company

Financial guarantees given to banks to secure banking facilities provided to:

	2012 $'000	2011 $'000
– Subsidiaries	185,229	205,350
– Associates and jointly controlled entities	–	91,874
	185,229	297,224

As at 31 December, $118,122,000 (2011: $240,647,000) of the banking facilities was utilised.

The periods in which the financial guarantees will expire are as follows:

	2012 $'000	2011 $'000
Within 1 year	4,250	191,580
After 1 year but within 5 years	180,979	105,644
	185,229	297,224

29 CONTINGENT LIABILITIES (UNSECURED) (CONTINUED)

As at 31 December, the following are the expected contractual undiscounted cash outflows of the above financial guarantees, including estimated interest payments and excluding the impact of netting arrangements:

		Cash flows		
	Contractual cash flows $'000	**Within 1 year $'000**	**Within 1 to 5 years $'000**	**More than 5 years $'000**
2012				
Financial guarantees	125,948	39,564	86,384	–
2011				
Financial guarantees	251,396	121,232	130,164	–

30 OPERATING SEGMENTS

The Group has three reportable segments, as described below, which are the Group's strategic business units. The strategic business units offer different products and services, and are managed separately because they require different technology and marketing strategies. For each of the strategic business units, the Group's CEO reviews internal management reports on at least a quarterly basis. The following summary describes the operations in each of the Group's reportable segments:

- **Distribution:** Includes sales of hydraulic products, hardware products and tools and equipment and provision of design engineering, project management and fabrication of systems equipment for industrial applications to the marine and oil and gas industries.

- **Drilling:** Includes leasing and operating of equipment and machinery to the oil and gas industry

- **Corporate and Engineering:** Includes the provision of corporate services to the Group, engineering design and project management services, as well as other oil and gas related services.

Information regarding the results of each reportable segment is included below. Performance is measured based on segment profit before income tax, as included in the internal management reports that are reviewed by the Group's CEO. Segment profit is used to measure performance as management believes that such information is the most relevant in evaluating the results of certain segments relative to other entities that operate within these industries. Inter-segment pricing is determined on an arm's length basis.

30 OPERATING SEGMENTS (CONTINUED)

Information about reportable segments

Business segments	Distribution		Drilling		Corporate and Engineering		Total	
	2012	2011	2012	2011	2012	2011	2012	2011
	$'000	$'000	$'000	$'000	$'000	$'000	$'000	$'000
External revenues	460,384	348,993	206,933	117,652	30,812	26,093	698,129	492,738
Inter-segment revenues	1,987	31,727	1,220	2,685	11	–	3,218	34,412
Total revenue	462,371	380,720	208,153	120,337	30,823	26,093	701,347	527,150
Finance income	561	155	104	252	14	1,638	679	2,045
Finance costs	(2,637)	(2,218)	(5,105)	(4,210)	(11,379)	(25,160)	(19,121)	(31,588)
Reportable segment (loss)/ profit before income tax	16,049	(14,519)	(7,023)	(5,508)	4,574	(56,467)	13,600	(76,494)
Share of associates and jointly controlled entities	(705)	313	917	(350)	(694)	(5,012)	(482)	(5,049)
Income tax	(1,768)	(1,245)	(4,913)	(3,332)	(1,332)	(1,539)	(8,013)	(6,116)
Other material non-cash items:								
Depreciation of property, plant and equipment	6,201	6,259	24,873	18,388	8,568	9,868	39,642	34,515
Amortisation of intangible assets	1,841	2,214	720	490	8	306	2,569	3,010
Impairment losses on property, plant and equipment and intangible assets	–	2,124	–	2,732	–	8,506	–	13,362
Allowance/(write back) for impairment loss on receivables	(276)	855	7,777	751	1,295	573	8,796	2,179
Allowance/(write back) for inventory obsolescence	(285)	15,470	–	–	–	–	(285)	15,470

30 OPERATING SEGMENTS (CONTINUED)

Information about reportable segments (Continued)

Business segments	Distribution		Drilling		Corporate and Engineering		Total	
	2012 $'000	2011 $'000	2012 $'000	2011 $'000	2012 $'000	2011 $'000	2012 $'000	2011 $'000
Assets and liabilities								
Reportable segment assets	399,888	354,571	459,663	388,495	64,623	85,622	924,174	828,688
Investment in associates and jointly controlled entities	1,693	2,398	(6,216)	72,789	17,058	15,352	12,535	90,539
Total assets	401,581	356,969	453,447	461,284	81,681	100,974	936,709	919,227
Reportable segment liabilities	174,830	140,012	173,695	157,569	149,310	168,803	497,835	466,384
Provision for tax	3,350	713	3,725	498	6,578	6,710	13,653	7,921
Deferred tax liabilities	4,344	4,903	297	501	1,357	1,359	5,998	6,763
Total liabilities	182,524	145,628	177,717	158,568	157,245	176,872	517,486	481,068
Other segment information								
Capital expenditure	8,037	11,889	25,420	76,125	25	5,367	33,482	93,381

Reconciliations of reportable segment revenues, profit or loss, assets and liabilities and other material items:

	2012 $'000	2011 $'000
Revenue		
Total revenue for reportable segments	701,347	527,150
Elimination of inter-segment revenue	(3,218)	(34,412)
Consolidated revenue	698,129	492,738
Profit or loss		
Total profit or loss for reportable segments	13,600	(76,494)
Unallocated amount:		
– Share of results of associates and jointly controlled entities	(482)	(5,049)
Consolidated profit/(loss) before tax	13,118	(81,543)

30 OPERATING SEGMENTS (CONTINUED)

Information about reportable segments (Continued)

	Reportable segment totals $'000	Intersegment adjustments $'000	Consolidated totals $'000
Other material items 2012			
Finance income	679	–	679
Finance costs	(19,121)	–	(19,121)
Capital expenditure	33,482	–	33,482
Depreciation and amortisation	42,211	–	42,211
Allowance for impairment loss on receivables	8,796	–	8,796
Other material items 2011			
Finance income	2,045	(1,243)	802
Finance costs	(31,588)	1,243	(30,345)
Capital expenditure	93,381	–	93,381
Depreciation and amortisation	37,525	–	37,525
Impairment losses on intangible assets	13,362	–	13,362
Allowance for impairment loss on receivables	2,179	–	2,179
Allowance for inventory obsolescence	15,470	–	15,470

Geographical segments

The businesses of the Group operate mainly in five principal geographical areas, namely, Singapore, the People's Republic of China, other Far East and ASEAN countries, Middle East and Europe. In presenting information on the basis of geographical segments, segment revenue is based on the geographical location of customers. Other non-current assets are based on the geographical location of the assets.

	Revenue from external customers		Non-current assets		Capital expenditure	
	2012 $'000	2011 $'000	2012 $'000	2011 $'000	2012 $'000	2011 $'000
Singapore	179,675	174,587	111,894	283,148	7,500	9,195
The People's Republic of China	74,526	63,631	25,635	26,887	2,320	23,742
Other Far East and ASEAN countries	165,527	120,952	89,643	47,442	14,359	43,758
Middle East	105,392	94,334	194,097	124,850	8,855	11,558
Europe	77,317	9,185	44,098	52,054	–	5,128
Other regions	95,692	30,049	–	–	448	–
Total	698,129	492,738	465,367	534,381	33,482	93,381

30 OPERATING SEGMENTS (CONTINUED)

Major customers

During the financial year, the Group has two (2011: three) customers in drilling segment and two (2011: Nil) customers in distribution segment that individually contributed 5% or more of the Group's revenue. Revenue from these customer accounts amounted to $170,717,000 (2011: $78,004,000).

31 SUBSEQUENT EVENTS

Sale of Non-Core Asset

On 26 February 2013, the Company announced that Yakki International Pte Ltd ("Yakki"), a company jointly controlled by KS Energy and Sinwa Limited, has entered into an irrevocable Sale and Purchase Agreement for the sale of the KS Titan 2 ("the Vessel") for a consideration of US$42 million (approximately $52 million) which approximates the book value as at 31 December 2012. The Vessel is sold on an "as-is, where-is" basis.

Refinancing Exercise

On 7 March 2013, the Company announced that holders of the 3.0% convertible bonds due 2015 ("Convertible Bonds") have tendered notices for the exercise of the put option in respect of Convertible Bonds in the aggregate principal amount of $75,000,000. Accordingly, the Company will require a total amount of $76,125,000 (being the principal amount together with accrued and unpaid interest) for the redemption of such Convertible Bonds on 26 March 2013.

The Company intends to use (i) all of the net proceeds from the Rights Issue, (ii) part of the net proceeds raised from the proposed issue of the New Convertible Bonds and (iii) internal resources of the Group to redeem the Convertible Bonds.

On 27 February 2013, the Company announced a proposed renounceable underwritten rights issue of up to 102,586,443 new ordinary shares of the Company (the "Rights Issue") for a maximum proceeds of approximately $42,100,000.

On 28 February 2013, the Company announced a proposed issue of 6.00% convertible bonds due 2016 in the aggregate principal amount of $45,000,000 (the "Issue of New Convertible Bonds"). On 21 March 2013, the Company announced that the issue of the New Convertible Bonds has been successfully completed.

Bond Swap

On 21 March 2013, the Company announced that pursuant to the Issue of New Convertible Bonds, an existing holder of the Convertible Bonds will swap an aggregate principal value of $15,000,000 of Convertible Bonds for an aggregate principal value of $15,000,000 of New Convertible Bonds on a par-for-par basis.

Statistics of Shareholders

(As at 20 March 2013)

Share Capital	:	S$319,569,258.92
No. of Shares	:	410,345,772 (excluding Treasury Shares)
No. of Treasury Shares (Percentage)	:	11,308,000 (2.76%)
Class of Shares	:	Ordinary Shares
Voting Rights (excluding Treasury Shares)	:	One Vote per share

DISTRIBUTION OF SHAREHOLDERS BY SIZE OF SHAREHOLDINGS

SIZE OF HOLDINGS	NO. OF SHAREHOLDERS	% OF SHAREHOLDERS	NO. OF SHARES	% OF SHAREHOLDING
1 – 999	2,390	30.79	714,610	0.17
1,000 – 10,000	4,622	59.55	15,573,761	3.80
10,001 – 1,000,000	738	9.51	26,254,045	6.40
1,000,001 and above	12	0.15	367,803,356	89.63
TOTAL	**7,762**	**100.00**	**410,345,772**	**100.00**

Note: The percentage is based on 410,345,772 Shares (excluding 11,308,000 Shares held as Treasury Shares) as at 20 March 2013.

SUBSTANTIAL SHAREHOLDERS

(As shown in the Register of Substantial Shareholders as at 20 March 2013)

NO.	NAME	DIRECT INTEREST NO. OF SHARES HELD	%[1]	DEEMED INTERESTS NO. OF SHARES HELD	%[1]
1.	PACIFIC ONE ENERGY LIMITED	232,307,690	56.61	–	–
2.	DUBAI TRANSPORT COMPANY LLC	50,751,948	12.37	–	–
3.	KIM SENG HOLDINGS PTE LTD	22,689,600	5.53	–	–
4.	KRIS TAENAR WILUAN	–	–	232,307,690[2]	56.61
5.	RIJA HOLDINGS LIMITED	–	–	232,307,690[2]	56.61
6.	RICHARD JAMES WILUAN	–	–	232,307,690[2]	56.61
7.	ABDULLA MOHAMMED SALEH	–	–	50,751,948[3]	12.37
8.	AMSAF INVESTMENT LLC	–	–	50,751,948[3]	12.37
9.	AHMAD ABDULRAHIM BAKER	–	–	50,751,948[3]	12.37
10.	TAN KIM SENG	–	–	22,689,600[4]	5.53
11.	TAN HOO LANG	–	–	22,689,600[4]	5.53
12.	TAN FUH GIH	–	–	22,689,600[4]	5.53
13.	TAN WEI MIN	–	–	22,689,600[4]	5.53

Notes:

(1) The percentage of shareholding is calculated based on 410,345,772 issued shares (excluding 11,308,000 treasury shares) as at 20 March 2013.

(2) Rija Holdings Limited ("Rija"), the holding company of Pacific One Energy Limited ("Pac One"), is controlled by Mr Kris Taenar Wiluan ("Kris") and Mr. Richard James Wiluan ("Richard"). By virtue of Section 4 of the Securities and Futures Act, Rija, Kris and Richard are deemed interested in the 232,307,690 shares held by Pac One.

(3) Mr. Abdulla Mohammed Saleh, AMSAF Investment LLC and Mr. Ahmad Abdulrahim Baker are deemed interested in the 50,751,948 shares of the Company held by Dubai Transport Company LLC.

(4) Mr. Tan Kim Seng, Mr. Tan Hoo Lang, Mr. Tan Fuh Gih and Mr. Tan Wei Min are deemed interested in the 22,689,600 shares of the Company held by Kim Seng Holdings Pte Ltd.

Statistics of Shareholders

(As at 20 March 2013)

LIST OF 20 LARGEST SHAREHOLDERS

(As shown in the Depository Register as at 20 March 2013)

	NAME OF SHAREHOLDER	NO. OF SHARES	% OF SHARES
1	OVERSEA CHINESE BANK NOMINEES PRIVATE LIMITED	178,000,000	43.38
2	CITIBANK NOMINEES SINGAPORE PTE LTD	56,894,668	13.87
3	PACIFIC ONE ENERGY LIMITED	54,151,690	13.20
4	DUBAI TRANSPORT COMPANY LLC	50,751,948	12.37
5	RAFFLES NOMINEES (PTE) LTD	12,573,000	3.06
6	DBS NOMINEES PTE LTD	5,051,733	1.23
7	SUNFIELD PTE LTD	2,500,000	0.61
8	UNITED OVERSEAS BANK NOMINEES (PRIVATE) LIMITED	2,049,637	0.50
9	LIM GEOK SENG	1,916,730	0.47
10	BNP PARIBAS SECURITIES SERVICES PTE LTD	1,615,000	0.39
11	HSBC (SINGAPORE) NOMINEES PTE LTD	1,211,950	0.30
12	SAMUEL PAUL OLIVER CAREW-JONES	1,087,000	0.26
13	UOB KAY HIAN PTE LTD	981,078	0.24
14	PHILLIP SECURITIES PTE LTD	921,799	0.22
15	OCBC NOMINEES SINGAPORE PRIVATE LIMITED	775,787	0.19
16	MAYBANK KIM ENG SECURITIES PTE LTD	560,607	0.14
17	DBS VICKERS SECURITIES (SINGAPORE) PTE LTD	538,782	0.13
18	PHUA KIM HIANG	388,000	0.09
19	TEO CHAI CHING	381,375	0.09
20	LUHUT BINSAR PANDJAITAN	359,000	0.09
	TOTAL:	**372,709,784**	**90.83**

COMPLIANCE WITH RULE 723 OF THE SGX-ST LISTING MANUAL

Based on information available and to the best knowledge of the Company as at 20 March 2013, approximately 21.48% of the ordinary shares of the Company are held by the public. Accordingly, the Company has complied with Rule 723 of the Listing Manual of the SGX-ST.

Notice of Annual General Meeting

NOTICE IS HEREBY GIVEN that the Annual General Meeting ("**AGM**") of KS Energy Limited (the "**Company**") will be held at 19 Jurong Port Road, Singapore 619093 on Tuesday, 30 April 2013 at 10.00 a.m. for the following purposes:

AS ORDINARY BUSINESS

1. To receive and adopt the Directors' Report and the Audited Accounts of the Company for the year ended 31 December 2012 together with the Auditors' Report thereon. **(Resolution 1)**

2. To re-elect Mr Billy Lee Beng Cheng, a Director retiring pursuant to Article 91 of the Company's Articles of Association and who has offered himself for re-election. **(Resolution 2)**

   Mr Billy Lee Beng Cheng will, upon re-election as Director of the Company, remain as a member of the Audit Committee and Nominating Committee and Chairman of Remuneration Committee. He will be considered independent for the purposes of Rule 704(8) of the Listing Manual of the Singapore Exchange Securities Trading Limited.

3. To note the retirement of Mr Koh Soo Keong pursuant to Article 91 of the Company's Articles of Association at the conclusion of the AGM.

4. To note the vacation of office of Mr Abdulla Mohammed Saleh pursuant to Section 153 of the Companies Act, Cap 50 at the conclusion of the AGM.
   [See Explanatory Note (i)]

5. To approve the payment of Directors' fees of S$292,000 for the year ended 31 December 2012 (FY2011: S$275,000).
   [See Explanatory Note (ii)] **(Resolution 3)**

6. To re-appoint KPMG LLP as the Company's Auditors and to authorise the Directors to fix their remuneration. **(Resolution 4)**

7. To transact any other ordinary business which may be transacted at an Annual General Meeting.

AS SPECIAL BUSINESS

To consider and if thought fit, to pass the following resolutions as Ordinary Resolutions:

8. **Share Issue Mandate**

   That pursuant to Section 161 of the Companies Act, Cap. 50 and Rule 806 of the Listing Manual of the Singapore Exchange Securities Trading Limited ("**SGX-ST**"), authority be given to the Directors of the Company to issue shares ("**Shares**") whether by way of rights, bonus or otherwise, and/or make or grant offers, agreements or options (collectively, "**Instruments**") that might or would require Shares to be issued, including but not limited to the creation and issue of (as well as adjustments to) warrants, debentures or other instruments convertible into Shares at any time and upon such terms and conditions and to such persons as the Directors may, in their absolute discretion, deem fit provided that:

   (a) The aggregate number of Shares (including Shares to be issued in pursuance of Instruments made or granted pursuant to this Resolution) does not exceed fifty percent (50%) of the total number of issued shares (excluding treasury shares) in the capital of the Company at the time of the passing of this Resolution, of which the aggregate number of Shares and convertible securities to be issued other than on a pro rata basis to all shareholders of the Company shall not exceed twenty percent (20%) of the total number of issued shares (excluding treasury shares) in the capital of the Company;

(b) For the purpose of determining the aggregate number of Shares that may be issued under sub-paragraph (a) above, the total number of issued shares (excluding treasury shares) shall be based on the total number of issued shares (excluding treasury shares) of the Company as at the date of the passing of this Resolution, after adjusting for:

(i) new shares arising from the conversion or exercise of convertible securities;

(ii) new shares arising from exercising share options or vesting of Share awards outstanding or subsisting at the time this Resolution is passed; and

(iii) any subsequent bonus issue, consolidation or subdivision of shares;

(c) And that such authority shall, unless revoked or varied by the Company in general meeting, continue in force (i) until the conclusion of the Company's next Annual General Meeting or the date by which the next Annual General Meeting of the Company is required by law to be held, whichever is earlier or (ii) in the case of shares to be issued in accordance with the terms of convertible securities issued, made or granted pursuant to this Resolution, until the issuance of such shares in accordance with the terms of such convertible securities.

[See Explanatory Note (iii)] **(Resolution 5)**

9. **Authority to allot and issue shares under the KS Energy Employee Share Option Scheme and KS Energy Performance Share Plan**

That pursuant to Section 161 of the Companies' Act, Cap. 50, authority be and is hereby given to the Directors of the Company to allot and issue from time to time such number of shares in the Company as may be required to be issued pursuant to the exercise of options under the KS Energy Employee Share Option Scheme and/or such number of fully paid shares in the Company as may be required to be issued pursuant to the vesting of awards under the KS Energy Performance Share Plan provided that the aggregate number of shares to be issued pursuant to the options granted under the KS Energy Employee Share Option Scheme and the vesting of awards granted or to be granted under the KS Energy Performance Share Plan shall not exceed fifteen percent (15%) of the total number of issued shares (excluding treasury shares) in the capital of the Company from time to time.

[See Explanatory Note (iv)] **(Resolution 6)**

10. **The Proposed Renewal of the Shareholders' Mandate for Interested Person Transactions with PT DWI Sumber Arca Waja Group**

That for the purposes of Chapter 9 of the Listing Manual of the SGX-ST:

(a) approval be given for the renewal of the mandate for the Company, its subsidiaries and associated companies or any of them to enter into any of the transactions falling within the categories of interested person transactions ("**IPT**") set out in the appendix to the Notice of Annual General Meeting dated 15 April 2013 (the "**Appendix**") with any party who is of the class or classes of interested persons described in the Appendix, provided that such transactions are carried out in accordance with the review procedures of the Company for IPT set out in the Appendix (the "**DSAW IPT Mandate**");

(b) the DSAW IPT Mandate shall, unless revoked or varied by the Company in general meeting, continue in force until the conclusion of the next Annual General Meeting of the Company or the date by which the next Annual General Meeting of the Company is required by law to be held, whichever is earlier;

(c) the Audit Committee of the Company and/or any member of the Audit Committee be and is hereby authorised to take such action as it and/or he deems proper in respect of such procedures and/or to modify or implement such procedures as may be necessary to take into consideration any amendment to Chapter 9 of the Listing Manual of the SGX-ST which may be prescribed by the SGX-ST from time to time; and

(d) authority be given to the Directors and/or any of them to complete and do all such acts and things (including executing all such documents as may be required) as they and/or he may consider necessary, desirable, expedient or in the interest of the Company to give effect to the DSAW IPT Mandate as they and/or he may think fit.

[See Explanatory Note (v)] **(Resolution 7)**

11. **The Proposed Renewal of the Shareholders' Mandate for Interested Person Transactions with PT KS Drilling Indonesia and/or its subsidiaries**

That for the purposes of Chapter 9 of the Listing Manual of the SGX-ST:

(a) approval be given for the renewal of the mandate for the Company, its subsidiaries and associated companies or any of them to enter into any of the transactions falling within the categories of IPT set out in the Appendix with any party who is of the class or classes of interested persons described in the Appendix, provided that such transactions are carried out in accordance with the review procedures of the Company for IPT set out in the Appendix (the "**JVC IPT Mandate**");

(b) the JVC IPT Mandate shall, unless revoked or varied by the Company in general meeting, continue in force until the conclusion of the next Annual General Meeting of the Company or the date by which the next Annual General Meeting of the Company is required by law to be held, whichever is earlier;

(c) the Audit Committee of the Company and/or any member of the Audit Committee be and is hereby authorised to take such action as it and/or he deems proper in respect of such procedures and/or to modify or implement such procedures as may be necessary to take into consideration any amendment to Chapter 9 of the Listing Manual of the SGX-ST which may be prescribed by the SGX-ST from time to time; and

(d) authority be given to the Directors and/or any of them to complete and do all such acts and things (including executing all such documents as may be required) as they and/or he may consider necessary, desirable, expedient or in the interest of the Company to give effect to the JVC IPT Mandate as they and/or he may think fit.

[See Explanatory Note (vi)] **(Resolution 8)**

By Order of the Board

Busarakham Kohsikaporn
Company Secretary
Singapore, 15 April 2013

Explanatory Notes on Resolutions to be passed:

(i) The Item 4 above, is to note the retirement of Mr Abdulla Mohammed Saleh, who is over 70 years of age and does not wish to seek re-appointment pursuant to Section 153(6) of the Companies Act, Cap. 50.

Upon Mr Abdulla Mohammed Saleh's cessation as a Director of the Company, Mr Nelson McCallum Gibb shall *ipso facto* cease as his Alternate Director.

(ii) The Ordinary Resolution 3 proposed in item 5 above, is to approve the payment of Directors' fees of S$292,000 for the year ended 31 December 2012. The increase in Directors' fees of S$17,000 for the year ended 31 December 2012 was due mainly to the pro-rated payment of Directors' fees to Mr. Koh Soo Keong, who was re-designated from an Executive Director to a Non-Executive Director on 6 July 2012.

(iii) The Ordinary Resolution 5 proposed in item 8 above, if passed, will empower the Directors from the date of the above Meeting until the date of the next Annual General Meeting, to allot and issue Shares and convertible securities in the Company up to an amount not exceeding fifty percent (50%) of the total number of issued shares (excluding treasury shares) in the capital of the Company, of which up to twenty percent (20%) may be issued other than on a pro rata basis. For the purpose of determining the total number of Shares (excluding treasury Shares) that may be issued, the percentage of issued shares shall be based on the total number of issued shares (excluding treasury Shares) at the time this Resolution is passed, after adjusting for new shares arising from the conversion or exercise of any convertible securities or share options or vesting of share awards which are outstanding or subsisting at the time this Resolution is passed, and any subsequent consolidation or subdivision of shares.

(iv) The Ordinary Resolution 6 proposed in item 9 above, if passed, will empower the Directors of the Company, to allot and issue shares in the Company pursuant to the exercise of options outstanding under the KS Energy Employee Share Option Scheme and/or vesting of awards granted pursuant to the KS Energy Performance Share Plan, provided that the aggregate number of shares issued pursuant to the KS Energy Employee Share Option Scheme and the KS Energy Performance Share Plan does not exceed fifteen percent (15%) of the total number of issued shares (excluding treasury shares) in the capital of the Company from time to time.

(v) The Ordinary Resolution 7 proposed in item 10 above, if passed, will authorise the IPT pursuant to the DSAW IPT Mandate as described in the Appendix and recurring in the year and will empower the Directors and/or any of them to do all acts necessary to give effect to the DSAW IPT Mandate. This authority will, unless previously revoked or varied by the Company at a general meeting, expire at the conclusion of the next Annual General Meeting ("**Next AGM**") of the Company.

(vi) The Ordinary Resolution 8 proposed in item 11 above, if passed, will authorise the IPT pursuant to the JVC IPT Mandate as described in the Appendix and recurring in the year and will empower the Directors and/or any of them to do all acts necessary to give effect to the JVC IPT Mandate. This authority will, unless previously revoked or varied by the Company at a general meeting, expire at the conclusion of the Next AGM of the Company.

Notes:

1. A Member entitled to attend and vote at the AGM is entitled to appoint a proxy to attend and vote in his/her stead. A proxy need not be a Member of the Company.

2. If the appointor is a corporation, the instrument appointing a proxy must be executed under seal or the hand of its duly authorised officer or attorney.

3. The instrument appointing a proxy must be deposited at the Registered Office of the Company at 19 Jurong Port Road, Singapore 619093 not less than forty-eight (48) hours before the time appointed for holding the AGM.

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KS ENERGY LIMITED

(Incorporated In the Republic of Singapore with limited liability)
(Co. Reg. No: 198300104G)

IMPORTANT:

1. For investors who have used their CPF monies to buy KS Energy Limited's shares, this Report is forwarded to them at the request of the CPF Approved Nominees and is sent solely FOR INFORMATION ONLY.
2. This Proxy Form is not valid for use by CPF investors and shall be ineffective for all intents and purposes if used or purported to be used by them.
3. CPF investors who wish to vote should contact their CPF Approved Nominees.

PROXY FORM

(Please see notes overleaf before completing this Form)

*I/We, ______________________________ NRIC/Passport No. : ______________

of ____

being a member/members of **KS ENERGY LIMITED** (the "Company"), hereby appoint:

Name	NRIC/Passport No.	Proportion of Shareholdings	
		No. of Shares	%
Address			

and/or (delete as appropriate)

Name	NRIC/Passport No.	Proportion of Shareholdings	
		No. of Shares	%
Address			

or failing *him/her, the Chairman of the Meeting as *my/our *proxy/proxies to vote for *me/us on *my/our behalf at the Annual General Meeting (the "Meeting") of the Company to be held at 19 Jurong Port Road, Singapore 619093 on Tuesday, 30 April 2013 at 10.00 a.m. and at any adjournment thereof. *I/We direct *my/our *proxy/proxies to vote for or against the Resolutions proposed at the Meeting as indicated hereunder. If no specific direction as to voting is given or in the event of any other matter arising at the Meeting and at any adjournment thereof, the *proxy/proxies will vote or abstain from voting at *his/her discretion. The authority herein includes the right to demand or to join in demanding a poll and to vote on a poll.

(Please indicate your vote "For" or "Against" with a tick [√] within the box provided.)

No.	Resolutions relating to:	For	Against
1	Directors' Report and Audited Accounts for the year ended 31 December 2012		
2	Re-election of Mr. Billy Lee Beng Cheng as a Director		
3	Approval of Directors' fees amounting to S$292,000		
4	Re-appointment of KPMG LLP as Auditors		
5	Authority to allot and issue new shares		
6	Authority to allot and issue shares under the KS Energy Employee Share Option Scheme and KS Energy Performance Share Plan		
7	Proposed Renewal of Shareholders' Mandate for Interested Person Transactions with PT DWI Sumber Arca Waja Group		
8	Proposed Renewal of the Shareholders' Mandate for Interested Person Transactions with PT KS Drilling Indonesia and/or its subsidiaries		

* Delete where inapplicable

Dated this__________day of April 2013

Total number of Shares in:	No. of Shares
(a) CDP Register	
(b) Register of Members	

____

Signature of Shareholder(s)/
and, Common Seal of Corporate Shareholder

Notes:

1. Please insert the total number of Shares held by you. If you have Shares entered against your name in the Depository Register (as defined in Section 130A of the Companies Act, Chapter 50 of Singapore), you should insert that number of Shares. If you have Shares registered in your name in the Register of Members, you should insert that number of Shares. If you have Shares entered against your name in the Depository Register and Shares registered in your name in the Register of Members, you should insert the aggregate number of Shares entered against your name in the Depository Register and registered in your name in the Register of Members. If no number is inserted, the instrument appointing a proxy or proxies shall be deemed to relate to all the Shares held by you.

2. A member of the Company entitled to attend and vote at a meeting of the Company is entitled to appoint one or two proxies to attend and vote in his/her stead. A proxy need not be a member of the Company.

3. Where a member appoints two proxies, the appointments shall be invalid unless he/she specifies the proportion of his/her shareholding (expressed as a percentage of the whole) to be represented by each proxy.

4. The instrument appointing a proxy or proxies must be deposited at the registered office of the Company at 19 Jurong Port Road, Singapore 619093 not less than 48 hours before the time appointed for the Meeting.

5. The instrument appointing a proxy or proxies must be under the hand of the appointor or of his attorney duly authorised in writing. Where the instrument appointing a proxy or proxies is executed by a corporation, it must be executed either under its seal or under the hand of an officer or attorney duly authorised. Where the instrument appointing a proxy or proxies is executed by an attorney on behalf of the appointor, the letter or power of attorney or a duly certified copy thereof must be lodged with the instrument.

6. A corporation which is a member may authorise by resolution of its directors or other governing body such person as it thinks fit to act as its representative at the Meeting, in accordance with Section 179 of the Companies Act, Chapter 50 of Singapore.

General:

The Company shall be entitled to reject the instrument appointing a proxy or proxies if it is incomplete, improperly completed or illegible or where the true intentions of the appointor are not ascertainable from the instructions of the appointor specified in the instrument appointing a proxy or proxies. In addition, in the case of Shares entered in the Depository Register, the Company may reject any instrument appointing a proxy or proxies lodged if the member, being the appointor, is not shown to have Shares entered against his name in the Depository Register as at 48 hours before the time appointed for holding the Meeting, as certified by The Central Depository (Pte) Limited to the Company.

AFFIX
STAMP

The Company Secretary
KS ENERGY LIMITED
19 Jurong Port Road
Singapore 619093

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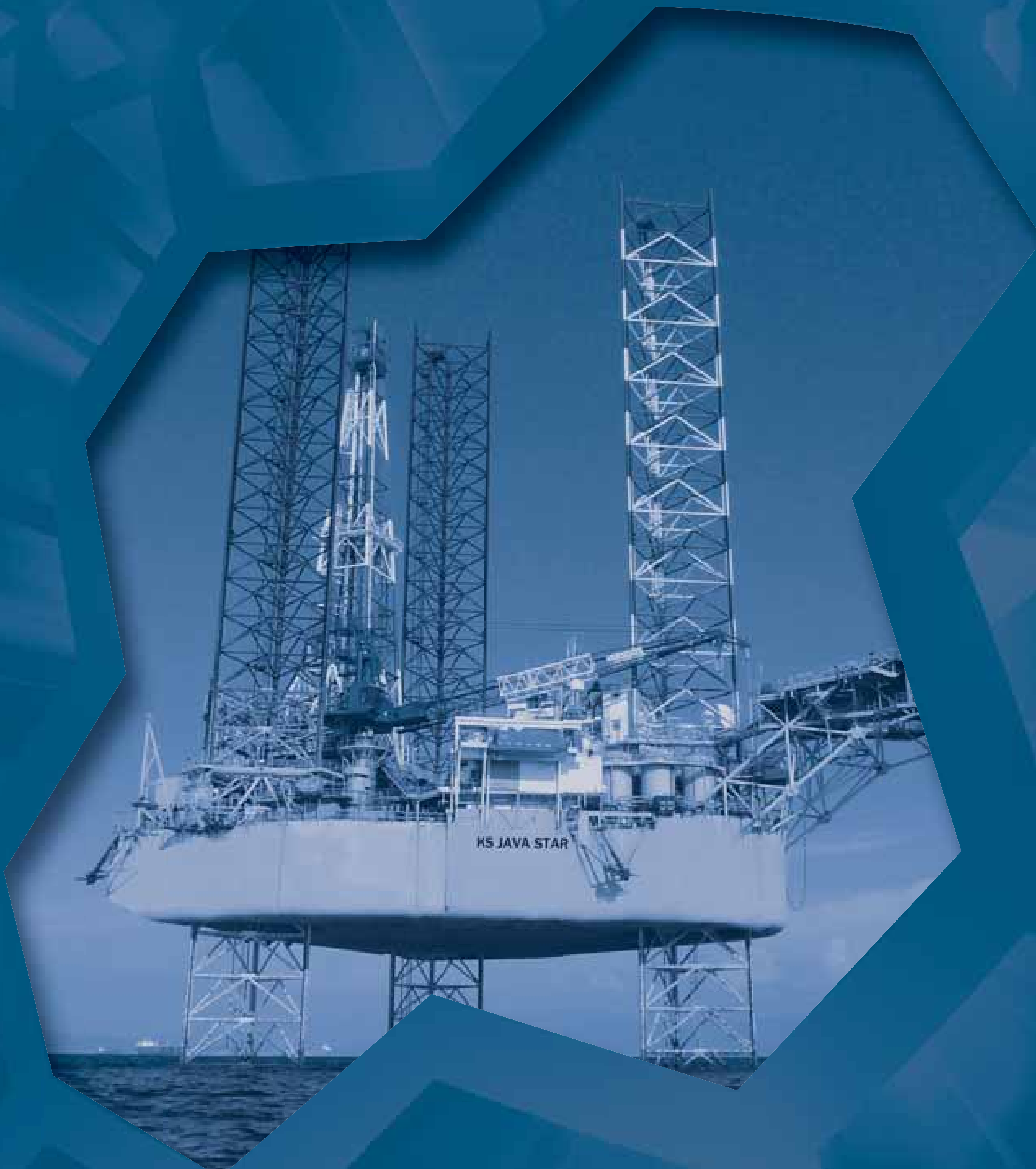

KS ENERGY LIMITED
An Integrated Energy Services Hub
(Company Registration No: 198300104G)

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