

SALE AND LEASEBACK OF NON-CORE ASSETS

1. Introduction

The Board of Directors of Falcon Energy Group Limited (“**Company**”, and together with its subsidiaries, the “**Group**”) wishes to announce that the Company had, on 8 August 2017, entered into two options to purchase (“**Options to Purchase**”) with YDL Capital Pte Ltd (“**Purchaser**”) in relation to the sale of office premises located at Units #15-19 and #22-14 of 10 Anson Road, International Plaza, Singapore 079903 (collectively referred to as “**Properties**”, and each a “**Property**”). The aggregate consideration for the sale of the Properties by the Company to the Purchaser (“**Disposal**”) is S\$7,400,000.

The Disposal was completed on 3 October 2017.

Following the completion of the Disposal, the Purchaser and Company have entered into two lease agreements (“**Lease Agreements**”) for the leaseback of the Properties by Company from the Purchaser for a lease term of three years commencing from 4 October 2017 with an aggregate monthly rent of S\$50,300.

2. Information on the Property

Each Property is a leasehold property with a 99-year lease commencing 2 June 1970, with a remaining lease period of approximately 51 years and seven months as at the date of this announcement. The Properties consist of two office units in a 50-storey commercial and residential building and have an aggregate gross floor area of approximately 438 square metres.

Prior to the Disposal, the legal and beneficial interest, rights, powers and benefits of the Group in relation to the Properties were held by the Company.

3. Aggregate Consideration and Terms of the Options to Purchase

The aggregate consideration for the Disposal is S\$7,400,000 (“**Aggregate Consideration**”), payable in the following manner:

- (a) a sum of S\$74,000 payable upon the date of the Options to Purchase;
- (b) a further of S\$296,000 payable within one week of the date of the Options to Purchase; and
- (c) the balance of the Aggregate Consideration being S\$7,030,000 (which is equivalent to 95% of the amount of the Aggregate Consideration) payable upon completion of the Disposal.

The Aggregate Consideration was arrived at on a willing-buyer, willing-seller basis, having taken into account the valuation report issued by OrangeTee.com Pte Ltd dated 15 March 2017 (“**Valuation Report**”) in relation to Unit #15-19. According to the Valuation Report, the open market value for Unit #15-19 is S\$4,250,000 and the forced sale value for Unit #15-19 is S\$3,613,000. As both Units #15-19 and #22-14 have the same gross floor area of 219 square metres, the Company has based the valuations for Unit #22-14 to be the same as the valuations for Unit #15-19.

Each Property is sold on an “as is where is” basis.

4. **Rationale for the Disposal**

Both Properties were initially intended to be used as the corporate office of the Group. However, the Company subsequently decided to lease Unit #15-19 to a third party.

Since 31 May 2017, the Company has announced that in the light of the severe and protracted downturn in the global oil and gas industry and the depressed offshore marine and subsea industry, the Company has taken steps to review its options to restructure its business operations, and balance sheet to preserve the value of the Company for its stakeholders, including discussions with the Group’s principal lenders to address significant debt maturities and various obligations owed to financial lenders that have fallen due and will be due from time to time, which may include, inter alia, refinancing and/or restructuring of existing loans (“**Restructuring**”).

Although the Disposal of the Properties will be a loss on disposal with the deficit of the proceeds arising from the Disposal over the book value of such Properties as of 30 June 2016 being US\$667,000 , the Board has considered and is of the view that the Disposal will be in the commercial interests of, and of benefit to, the Group, as the majority of the proceeds from the Disposal will be applied towards settlement of outstanding amounts under credit facilities granted by United Overseas Bank Limited (“**UOB**”) and Ethoz Capital Ltd (“**Ethoz**”) and secured by the Properties. This will reduce the Group’s current financial liabilities and borrowings in the light of the ongoing discussions in relation to the Restructuring.

The Company is able to lease back the Properties, and continue to operate at Unit #22-14 and sub-lease Unit #15-19 to the said third party. This enables the Company to continue operations without any disruption for the next three years after the Disposal.

5. **Use of Sale Proceeds**

As alluded to above, and the majority of the proceeds from the Disposal will be applied towards settlement of outstanding amounts under credit facilities granted by UOB and Ethoz.

6. **Financial Effects of the Disposal**

The financial effects of the Disposal on the Company set out below are:

- (i) purely for illustrative purposes only and do not reflect the future actual financial position of the Company or the Group after completion of the Disposal.
- (ii) based on the audited consolidated financial statements of the Company for the financial year ended 30 June 2016 (as the Company has not announced its audited consolidated financial statements for the financial year ended 30 June 2017).

Net Tangible Asset (NTA)

The effect of the Disposal on the audited NTA per share of the Group for the financial year ended 30 June 2016, assuming that the Disposal had been effected at the end of financial year ended 30 June 2016, is as follows:

	Before the Disposal	After the Disposal
NTA (US\$'000)	330,443	324,418
NTA per share (US cents)*	40.82	40.08

Earnings per Share (EPS)

The effect of the Disposal on the audited EPS of the Group for financial year ended 30 June 2016, assuming that the Disposal had been effected at the beginning of financial year ended 30 June 2016, is as follows:

	Before the Disposal	After the Disposal
Profit attributable to owners of the Company (US\$'000)	39,821	39,154
Earnings per Share (US cents)*	4.92	4.84

*Calculated based on the weighted average number of the Company of 809,460,000 ordinary shares.

7. **Relative Figures computed based on Rule 1006 of the Listing Manual**

The relative figures for the Disposal computed on the relevant bases set out in Rule 1006 of the Listing Manual of the Singapore Exchange Securities Trading Limited ("**Listing Manual**") are as follows:

1006(a)	The net asset value of the assets to be disposed of, compared with the Group's net asset value	Net asset value of the Properties as at 31 March 2017 (being US\$5.28 million) is approximately 1.93% of the Group's net asset value (being US\$274.05 million) as at 31 March 2017.
1006(b)	The net profits attributable to the assets acquired or disposed of, compared with the Group's net profits	Not applicable.
1006(c)	The aggregate value of the consideration received, compared with the Group's market capitalisation	The Aggregate Consideration of US\$5.45 million (S\$7.4 million @ 1.3570 exchange rate) for the Disposal represents approximately 17.97% of the Company's current market capitalisation of approximately US\$30.32 million as at 7 August 2017 (being the market day preceding the date the Options to Purchase were executed).
1006(d)	The number of equity securities issued by the group as consideration for an acquisition, compared with the number of equity securities previously in issue	Not applicable.
1006(e)	Aggregate volume or amount of proved and probable reserved to be disposed of, compared with the aggregate of the Group's proved and probable reserves	Not applicable.

Based on the relative figures computation pursuant to Rule 1006 of the Listing Manual, the relative figure for Rule 1006(c) exceeds 5% but does not exceed 20%. Therefore, the Disposal constitutes a disclosable transaction under Chapter 10 of the Listing Manual.

8. Interest of Directors and Controlling Shareholders

None of the directors or substantial shareholders of the Company has any interest, direct or indirect, in the Disposal. None of the directors or substantial shareholders of the Company is related to the Purchaser.

9. Service Contracts of the Directors

No person is proposed to be appointed as a director of the Company or any of its subsidiaries in connection with the Disposal.

10. Documents for Inspection

Copies of the Options to Purchase are available for inspection during normal business hours at the Company's registered office at 10 Anson Road #33-15 International Plaza, Singapore 079903 for three months from the date of this announcement.

BY ORDER OF THE BOARD

Tan Pong Tyea
Chairman and Chief Executive Officer
3 October 2017