Ezion Holdings Limited

EZION HOLDINGS LIMITED
(Incorporated in the Republic of Singapore)
(Company Registration No. 199904364E)

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(1) DISCLAIMER OF OPINION BY THE INDEPENDENT AUDITORS ON THE AUDITED FINANCIAL STATEMENTS FOR THE FINANCIAL YEAR ENDED 31 DECEMBER 2019

(2) EVENT OF DEFAULT UNDER REFINANCING BONDS

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1. INTRODUCTION

Pursuant to Rule 704(5) of the Listing Manual of the Singapore Exchange Securities Trading Limited, the board of directors ("**Board**") of Ezion Holdings Limited (the "**Company**" and together with its subsidiaries, the "**Group**") wishes to advise that the independent auditors of the Company, KPMG LLP ("**Auditors**"), had included a disclaimer of opinion based on the use of going concern assumption on the consolidated financial statements of the Group and the Company's balance sheet and statement of changes in equity (the "**Disclaimer of Opinion**") in their independent auditors' report dated 8 June 2020 (the "**Independent Auditors' Report**") in relation to the consolidated financial statements of the Group for the financial year ended 31 December 2019 (the "**Audited Financial Statements**").

2. DISCLAIMER OF OPINION

2.1. The basis for the Disclaimer of Opinion on the Group's Audited Financial Statements are set out in more detail in the Independent Auditors' Report. A copy of the Independent Auditors' Report and the extract of Notes 2 to the Audited Financial Statements are attached to this announcement as Appendix I and Appendix II respectively.

2.2. Notwithstanding the above, the Audited Financial Statements are prepared on a going concern basis, as the directors and management continue to negotiate the terms of the Proposed Transactions and Proposed Scheme of Arrangement, collectively known as the "Corporate Restructuring" with the lenders and a prospective investor, Yinson Eden Pte. Ltd. The directors and management also believe that the Group is able to generate sufficient cash flows from the Group's operating activities to meet its working capital needs as and when they fall due at least in the next 12 months from the reporting date (31 December 2019) of the Audited Financial Statements. The Board has considered the following factors:

(i) Loans and borrowings with lenders

As at 31 December 2019, the Group has outstanding loans and borrowings of US$1,581,520,000 that were classified as "current liabilities", caused by breaches of certain financial covenants. These loans and borrowings are repayable on demand. No statutory demand has, however, been served to the Company to recall the debt obligations as the Group is currently addressing the default of its loans and borrowings through the Corporate Restructuring.

The Corporate Restructuring would involve a combination of capitalisation of existing debts into share capital of the Company, cash subscription by a prospective investor; and a simultaneous compromise of the Group's debt obligations. The quantum of debt capitalisation and debt compromise, together with the cash subscription, are under negotiation with the lenders and prospective investor as at the date of the Audited Financial Statements.

(ii) Cash flows from operating activities

The Group expects the overall operating environment to remain challenging following the COVID-19 pandemic and the plunge in oil prices, but still expects to generate positive cash flows from customer contracts to meet its working capital needs and interest on debt obligations due in the next 12 months from the reporting date (31 December 2019) of the Audited Financial Statements, with the expected continuing support and availability of banking facilities from the lenders. In this regard, the assumed interest payment in debt obligations is premised on the successful completion of the Corporate Restructuring from 1 January 2020. The Audited Financial Statements has however separately disclosed the contractual interest obligations due and payable in the next 12 months.

2.3. Notwithstanding the directors' and management's belief that the use of going concern assumption in the preparation of the financial statements remains appropriate, there are material uncertainties over (a) completion of the Corporate Restructuring as the Company, as at the date of this report, is still in negotiation with the lenders and prospective investor to draw out terms and conditions of the Corporate Restructuring, (b) generation of positive operating cash flows caused by the COVID-19 pandemic and the plunge in oil prices that arose subsequent to the year-end and (c) the continuing support and availability of banking facilities from the lenders. If for any reason the Group and Company are unable to continue as a going concern, it could have an impact on the Group's and Company's classification of assets and liabilities and the ability to realise assets at their recognised values and to extinguish liabilities in the normal course of business at the amounts stated in the financial statements.

2.4. The Independent Auditors' Report and a complete set of the Audited Financial Statements will form part of the Company's annual report for FY2019 ("**FY2019 Annual Report**") which is expected to be released on SGXNET and the Company's website on 10 June 2020. Shareholders of the Company are advised to read this announcement in conjunction with the FY2019 Annual Report.

3. EVENT OF DEFAULT UNDER THE REFINANCING BONDS

3.1. The Board also refers to (a) the trust deed dated 9 May 2012 as supplemented by the supplemental trust deed dated 6 April 2018 between the Company and DBS Trustee Limited in respect of the Series 008 S$150,000,000 7.00 per cent. Subordinated Perpetual Securities (the "**Series 008 Trust Deed**") and (b) the refinancing bonds trust deed dated 13 April 2018 between the Company and DBS Trustee Limited in respect of the Refinancing Series A Non-Convertible Bonds, the Refinancing Series B Convertible Bonds and the Refinancing Series C Non-Convertible Bonds (collectively, the "**Refinancing Bonds**") (the "**Refinancing Bonds Trust Deed**"). Capitalised terms used in this announcement but not defined shall have the meanings ascribed to such terms in the Series 008 Trust Deed and the Refinancing Bonds Trust Deed, as the case may be.

3.2. The Disclaimer of Opinion for the Audited Financial Statements would be a breach of the Series 008 Trust Deed and the Refinancing Bonds Trust Deed. Such a breach is an Event of Default of each series of the Refinancing Bonds, but is not an Enforcement Event under the Series 008 Perpetual Securities.

3.3. In addition to the Disclaimer of Opinion, the Audited Financial Statements also discloses that there are breaches of financial covenants with respect to various loans. Such breaches of financial covenants (if not waived by the all of the relevant banks) also constitute an Event of Default of the Refinancing Bonds, but is not an Enforcement Event under the Series 008 Perpetual Securities.

3.4. The Company is currently evaluating all viable and available options in respect of the aforesaid Events of Default (including obtaining waivers), with a view to engage the holders of the Refinancing Bonds subsequent to obtaining more certainty and clarity from the discussions on the Restructuring Plan.

4. FURTHER ANNOUNCEMENTS

The Company will keep its stakeholders informed of any further developments on the above-mentioned matters and make the necessary announcements.

5. CAUTIONARY STATEMENT

Shareholders and potential investors of the Company are advised to read this announcement and the other announcements by the Company carefully. Shareholders are advised to refrain from taking any action in respect of their securities in the Company which may be prejudicial to their interests, and to exercise caution when dealing in the securities of the Company. In the event of any doubt, shareholders should consult their stockbrokers, bank managers, solicitors, accountants or other professional advisers.

By Order of the Board

Goon Fook Wye Paul
Company Secretary
8 June 2020

Appendix I

Extracted from the Independent Auditors 'Report to the Audited Financial Statements of Ezion Holdings Limited for the financial year ended 31 December 2019

Independent auditors' report

Members of the Company
Ezion Holdings Limited

Report on the audit of the financial statements

Disclaimer of opinion

We were engaged to audit the financial statements of Ezion Holdings Limited (the "Company") and its subsidiaries (the "Group"), which comprise the consolidated statement of financial position of the Group and the statement of financial position of the Company as at 31 December 2019, the consolidated income statement, consolidated statement of comprehensive income, consolidated statement of changes in equity and consolidated statement of cash flows of the Group for the year then ended, and notes to the financial statements, including a summary of significant accounting policies, as set out on pages FS1 to FS109.

We do not express an opinion on the accompanying consolidated financial statements of the Group or the statement of financial position of the Company. Because of the significance of the matters described in the '*Basis for Disclaimer of Opinion*' section of our report, we have not been able to obtain sufficient appropriate audit evidence to provide a basis for an audit opinion on these financial statements.

Basis for disclaimer of opinion

We draw attention to Note 2 to the financial statements which indicates that the financial statements have been prepared by management on a going concern basis. In forming our opinion, we have considered the adequacy of the disclosures made in the financial statements concerning the basis of their preparation by management. The use of the going concern assumption depends on support from the Group's existing lenders, as well as capital injection by a prospective investor into the Company (collectively, the "Corporate Restructuring"); and the ability of the Group to generate sufficient cash flows from operating activities to meet its working capital needs as and when they fall due at least in the next 12 months from the date of this report. In this regard, we draw your attention to the following notes and related matters:

(i) Deficiencies in shareholders' equity and net working capital

The Group incurred a net loss of US$614,936,000 for the year ended 31 December 2019. As at that date, the Group and the Company had net current liabilities of US$1,540,861,000 and US$1,545,833,000 respectively; and net liabilities of US$867,444,000 and US$1,194,336,000 respectively. Without completion of the Corporate Restructuring, management expects the net working capital and shareholders' equity of both the Group and Company, to remain negative for at least the next 12 months. The forecast cashflows of the Group and Company for the same period will not be sufficient to address the deficiency.

(ii) Breach of loan covenants on outstanding loan obligations

Notes 18 and 19 to the financial statements states that the Group had breached certain financial covenants resulting in loan obligations of US$1,581,520,000 being classified as "current liabilities". These breaches have not been waived and can be recalled at any time by the lenders. We have not been able to obtain sufficient evidence to determine if these loans will continue to be made available to the Group.

(iii) Interest obligations on principal borrowings

Note 31 to the financial statements states that the Group's contractual interest obligations for the next 12 months is US$35,294,000. In preparing the Group's cash flow forecast from operating activities for the next 12 months as set out in Note 2, the Group factored a lower interest obligation on the assumption that the Corporate Restructuring would proceed from 1 January 2020. We have not been able to obtain sufficient evidence to support the lower forecast interest obligations. There is the possibility that cash flows from operating activities may not be sufficient to settle the Group's contractual interest obligations due and payable for the next 12 months (refer to (iv) below).

(iv) Cash flows from operating activities

Note 2 to the financial statements states that the Group expects to generate positive cash flows from continuing businesses to meet its working capital needs. With the COVID-19 pandemic and the plunge in oil prices that arose subsequent to the year-end as described in Note 33, we have not been able to satisfy ourselves that the forecast positive cash flows will materialise to allow the Group to meet its debts and obligations as and when they fall due.

(v) Corporate Restructuring

As at the date of this report, the Corporate Restructuring set out in Notes 2 and 33 to the financial statements is still being negotiated with the lenders and prospective investor. We have not been able to obtain sufficient evidence to indicate that a successful conclusion to the Corporate Restructuring can be reasonably expected within twelve months from the date of this report.

The conditions set out in the preceding paragraphs reflect the presence of multiple material uncertainties that are significant to the financial statements as a whole. It is the intention of the Company to complete the Corporate Restructuring and continue as a going concern. However, we have not been able to obtain sufficient evidence to address these multiple uncertainties. The financial statements do not include any adjustments, including re-classifications that may be necessary as a result of these uncertainties.

Responsibilities of management and directors 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 Companies Act, Chapter 50 (the "Act") and Singapore Financial Reporting Standards (International) ("SFRS(I)s"), and for devising and maintaining a system of internal accounting controls sufficient to provide a reasonable assurance that assets are safeguarded against loss from unauthorised use or disposition; and transactions are properly authorised and that they are recorded as necessary to permit the preparation of true and fair financial statements and to maintain accountability of assets.

In preparing the financial statements, management is responsible for assessing the Group's ability to continue as a going concern, disclosing, as applicable, matters related to going concern and using the going concern basis of accounting unless management either intends to liquidate the Group or to cease operations, or has no realistic alternative but to do so.

The directors' responsibilities include overseeing the Group's financial reporting process.

Auditors' responsibilities for the audit of the financial statements

Our responsibility is to conduct our audit in accordance with Singapore Standards on Auditing ("SSAs"). However, because of the matters described in the *'Basis for disclaimer of opinion'* section of our report, we were not able to obtain sufficient appropriate audit evidence to provide a basis for an audit opinion on these financial statements.

We are independent of the Group in accordance with the Accounting and Corporate Regulatory Authority ("ACRA") *Code of Professional Conduct and Ethics for Public Accountants and Accounting Entities* ("ACRA Code") together with the ethical requirements that are relevant to our audit of the financial statements in Singapore, and we have fulfilled our other ethical responsibilities in accordance with these requirements and the ACRA Code.

Report on other legal and regulatory requirements

In our opinion, in view of the significance of the matters described in the *'Basis for disclaimer of opinion'* section of our report, we do not express an opinion on whether the accounting and other records required by the Act to be kept by the Company and by those subsidiary corporations incorporated in Singapore of which we are the auditors have been properly kept in accordance with the provisions of the Act.

The engagement partner on the audit resulting in this independent auditors' report is Yeo Lik Khim.

KPMG LLP
Public Accountants and
Chartered Accountants

Singapore
8 June 2020

Appendix II

Extracted Note 2 to the Audited Financial Statements of Ezion Holdings Limited for the financial year ended 31 December 2019.

2 Going concern

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

The Group incurred a net loss of US$614,936,000 for the year ended 31 December 2019. As at that date, the Group and the Company had net current liabilities of US$1,540,861,000 and US$1,545,833,000 respectively; and net liabilities of US$867,444,000 and US$1,194,336,000 respectively. The financial statements for the year ended 31 December 2019 are prepared on a going concern basis, as the directors and management continue to negotiate the terms of the Proposed Transactions and Proposed Scheme of Arrangement, collectively known as the "Corporate Restructuring" (see Note 33) with the lenders and a prospective investor, Yinson Eden Pte. Ltd. The directors and management also believe that the Group is able to generate sufficient cash flows from the Group's operating activities to meet its working capital needs as and when they fall due at least in the next 12 months from the reporting date.

(i) Loans and borrowings with lenders

As at 31 December 2019, the Group has outstanding loans and borrowings of US$1,581,520,000 that were classified as "current liabilities", caused by breaches of certain financial covenants. These loans and borrowings are repayable on demand. No statutory demand has, however, been served to the Company to recall the debt obligations as the Group is currently addressing the default of its loans and borrowings through the Corporate Restructuring. The Corporate Restructuring would involve a combination of capitalisation of existing debts into share capital of the Company, cash subscription by a prospective investor; and a simultaneous compromise of the Group's debt obligations. The quantum of debt capitalisation and debt compromise, together with the cash subscription, are under negotiation with the lenders and prospective investor as at the date of this report.

(ii) Cash flows from operating activities

The Group expects the overall operating environment to remain challenging following the COVID-19 pandemic and the plunge in oil prices, but still expects to generate positive cash flows from customer contracts to meet its working capital needs and interest on debt obligations due in the next 12 months from the reporting date, with the expected continuing support and availability of banking facilities from the lenders. In this regard, the assumed interest payment in debt obligations is premised on the successful completion of the Corporate Restructuring from 1 January 2020. Note 31 has however separately disclosed the contractual interest obligations due and payable in the next 12 months.

Notwithstanding the directors' and management's belief that the use of going concern assumption in the preparation of the financial statements remains appropriate, there are material uncertainties over (a) completion of the Corporate Restructuring as the Company, as at the date of this report, is still in negotiation with the lenders and prospective investor to draw out terms and conditions of the Corporate Restructuring, (b) generation of positive operating cash flows caused by the COVID-19 pandemic and the plunge in oil prices that arose subsequent to the year-end; and (c) the continuing support and availability of banking facilities from the lenders.

If for any reason the Group and Company are unable to continue as a going concern, it could have an impact on the Group's and Company's classification of assets and liabilities and the ability to realise assets at their recognised values and to extinguish liabilities in the normal course of business at the amounts stated in the financial statements.