

Vallianz Holdings Limited
Co Reg No. 199206945E

1 Harbourfront Avenue #06-08 Keppel Bay Tower Singapore 098632
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www.vallianzhholdings.com

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- (i) **INCREASE IN THE SHARE CAPITAL OF RAWABI VALLIANZ OFFSHORE SERVICES LIMITED ("RVOS");**
 - (ii) **ASSIGNMENT BY RAWABI HOLDING COMPANY LIMITED TO RAWABI ENERGY COMPANY OF ITS SHARES IN RVOS AND PROPOSED ASSIGNMENT OF ECONOMIC RIGHTS TO VIC; AND**
 - (iii) **DECONSOLIDATION OF RVOS**
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1. Introduction

The Board of Directors (the "**Board**") of Vallianz Holdings Limited (the "**Company**") and collectively together with its subsidiaries, the "**Group**") wishes to announce that:

- i) Rawabi Holding Company Limited ("**RHC**"), a controlling shareholder of the Company, had subscribed for all additional new shares in RVOS ("**New RVOS Shares**") arising from a rights issue by RVOS ("**RVOS Rights Issue**"). Prior to the subscription of the additional new shares in RVOS, RVOS was a joint venture held equally by the Company through its wholly-owned subsidiary, Vallianz Investment Capital Pte Ltd ("**VIC**"), and RHC;
- ii) Following the RVOS Rights Issue, RHC had assigned all the shares that RHC owns in RVOS (including the New RVOS Shares) to RHC's wholly-owned subsidiary, Rawabi Energy Company ("**REC**"). The Company requested for REC to continue to assign all RHC Group's economic interest in RVOS to the Group, subject to board approval of RHC ("**Proposed Assignment**"); and
- iii) In light of the Government of the Kingdom of Saudi Arabia's local content drive and requirement, and in anticipation of further regulatory and/or industry developments, the Board has assessed that the Group will no longer have the ability to direct the business activities of RVOS and consequently the Group will deconsolidate the financial results of RVOS with effect from 31 March 2021 ("**Deconsolidation**").

2. RVOS Rights Issue

As a background, RVOS, a company incorporated in the Kingdom of Saudi Arabia, was a 50:50 joint-venture between the Group and RHC, and the Group had consolidated the results of RVOS as a wholly-owned subsidiary in view of the assignment of economic rights by RHC to the Group. RVOS had recently increased its share capital by way of a rights issue, pursuant to its Articles of Association, via the allotment and issuance of 80,000 new ordinary shares at an issue price of SAR1,000 (US\$267) per share, being the par value of each RVOS share, in cash. The RVOS Rights Issue was completed on 24 December 2020. As the Group was not in a financial position to subscribe for its pro-rata rights entitlement to the RVOS Rights Issue, RHC had subscribed for the entire RVOS Rights Issue for SAR80.0 million (US\$21.3 million). The paid-up share capital of RVOS before and after the RVOS Rights Issue is shown below:

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Name of shareholders	Before the RVOS Rights Issue		RVOS Rights Issue		After the RVOS Rights Issue	
	No. of RVOS shares ('000)	Paid-up capital of RVOS ('000)	No. of Rights Shares ('000)	Value of the Rights Shares issued and allotted ('000)	No. of RVOS shares ('000)	Paid-up capital of RVOS ('000)
RHC	175	SAR175,000 (US\$46,667)	80	SAR80,000 (US\$21,333)	255	SAR255,000 (US\$68,000)
VIC	175	SAR175,000 (US\$46,667)	-	-	175	SAR175,000 (US\$46,667)
Total	350	SAR350,000 (US\$93,333)	80	SAR80,000 (US\$21,333)	430	SAR430,000 (US\$114,667)

Following the completion of the RVOS Rights Issue, the shareholdings of VIC and RHC in RVOS have changed from 50% each, to 40.7% and 59.3% respectively, and RHC had assigned all its 59.3% shareholding interest in RVOS to REC, a wholly-owned subsidiary of RHC. The above assignment from RHC to REC is part of an internal restructuring exercise by RHC to streamline its investment portfolio. Accordingly, REC will have the shareholding rights to 59.3% in RVOS.

In the recent few years, the Government of the Kingdom of Saudi Arabia has been reinforcing the local content requirement, and in the recent few months this has escalated to the Government announcing that it would cease doing business with international companies whose regional headquarters are not based in the Kingdom. Further, a customer of RVOS has initiated discussion with RVOS on the possible ways for RVOS to further increase its local content.

In light of the Government of the Kingdom Saudi Arabia's local content drive and requirement, and in anticipation of further regulatory and/or industry developments, the Board has assessed that the Group will no longer have the ability to direct the business activities of RVOS, and consequently the Group will deconsolidate the financial results of RVOS with effect from 31 March 2021.

With the Deconsolidation, the Company will equity account its interest in RVOS as "Investment in Associate" in the Group's financial statements. With the Proposed Assignment, the Company intends to equity account 100% of the financial results of RVOS instead of VIC's direct 40.7% shareholding interest in RVOS. The Company is currently consulting its auditors on the appropriate accounting treatment for its investment in RVOS.

3. Rationale for the RVOS Rights Issue

Given the challenging and competitive landscape which RVOS operates in, by increasing the local shareholding content of RVOS, this would further enhance its competitive standing in the region. The RVOS Rights Issue also provides additional working capital for RVOS.

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4. Pro forma financial statements of the Group

The RVOS Rights Issue is not expected to have a material financial effect on the EPS and NTA of the Group for the current financial year ending 31 March 2021.

With the Deconsolidation, in respect of the Statement of Financial Position, the Group will cease to consolidate the assets and liabilities of RVOS. Instead, the Group will account for its interest in RVOS as Investment in Associate. In respect of the Income Statement, upon Deconsolidation, the Group will cease to consolidate the line items of RVOS in the Income Statement of the Group. Instead, the Group's share of RVOS profit or loss will be reflected as share of results of associate.

Aside from the effect of Deconsolidation, the ability of the Group to equity account for 40.7% (being its direct interest in RVOS) or 100% (in view of the Proposed Assignment) is pending (a) the completion of the Proposed Assignment and (b) confirmation from the Company's auditors on the appropriate accounting treatment with respect to RVOS.

As an illustration, on the assumption that the Group equity accounts for its direct 40.7% interest in RVOS, the *pro forma* consolidated statement of financial position and *pro forma* consolidated income statement of the Group for the half-year ended 30 September 2020 ("**6M2020**") are illustrated in Sections 4.1 and 4.2 below. The *pro forma* financial statements are prepared on the assumption that the RVOS Rights Issue and the Deconsolidation were effected on 1 April 2020.

Such *pro forma* financial statements of the Group as set out below are for illustrative purposes only and do not reflect the future financial results or position of the Group after the RVOS Rights Issue and the Deconsolidation.

4.1 Pro forma Consolidated Statement of Financial Position

As at 30 September 2020	Before Deconsolidation and RVOS Rights Issue	Post Deconsolidation and RVOS Rights Issue	Variance
ASSETS	US\$'000	US\$'000	
Current Assets:			
Cash and cash equivalents	34,060	9,495	(72%)
Trade receivables	61,641	7,149	(88%)
Other receivables	65,693	23,332	(64%)
Inventories	6,469	771	(88%)
Contract assets	700	700	-
Financial assets at fair value through other comprehensive income	31,729	31,729	-
Non-current assets:			
Monies pledged with banks	699	699	-
Property, plant and equipment	818,034	111,035	(86%)
Right-of-use	15,416	-	(100%)
Investment in Associate	14,843	136,196	N.M
Total assets	1,049,284	321,106	(69%)
LIABILITIES AND EQUITY			
Current liabilities:			
Term loans	210,709	95,596	(55%)
Trade payables	54,627	43,242	(21%)
Other payables	61,870	36,876	(40%)

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Lease liability	9,177	-	(100%)
Income tax payable	3,958	3,958	-
Non-current liabilities:			
Term loans	592,890	82,313	(86%)
Retirement benefit obligation	2,661	280	(89%)
Lease liability	6,910	-	(100%)
Deferred tax liabilities	18,980	14,469	(24%)
Capital and reserves:			
Share Capital	347,746	347,746	-
Perpetual capital securities	22,500	22,500	-
Foreign currency translation reserve	(126)	(126)	-
Other reserve	(524)	(524)	-
Shareholders' advance	97,560	97,560	-
Retained earnings	(404,658)	(403,920)	-
Equity attributable to owners of the Company and capital securities	62,498	63,236	1%
Non-controlling interests	25,004	(18,864)	N.M
Total equity	87,502	44,372	(50%)
Total liabilities and equity	1,049,284	321,106	(69%)

N.M – Not meaningful

On the assumption the RVOS Rights Issue and Deconsolidation were effected on 1 April 2020, the Investment in Associate pertaining to RVOS would be US\$121.9 million based mainly on the Group's direct 40.7% shareholding interest in RVOS (US\$46.7 million) and 100% of RVOS retained earnings as at 31 March 2020.

As at 30 September 2020, the Investment in Associate would include the share of results of RVOS for 6M2020. During 6M2020, RVOS had incurred a loss of US\$1.245 million.

If the Group equity accounts for its direct 40.7% interest in RVOS, the Investment in Associate would be reduced by the Group's share of 40.7% of RVOS loss. Hence, the Investment in Associate would be US\$136.2 million as shown in the table above. Under the Proposed Assignment, and if the Company's auditors are able to confirm the accounting treatment with respect to RVOS, then the Investment in Associate would include the full RVOS loss. Accordingly, the Investment in Associate would be US\$135.5 million.

Going forward, the impact of the Deconsolidation on the equity attributable to owners of the Company would be the Group's applicable share of results of RVOS.

Non-controlling interests would be reduced by US\$43.9 million upon the Deconsolidation mainly as a result of the removal of RHC's interest in the issued share capital of RVOS as at 1 April 2020.

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4.2 Pro forma Consolidated Income Statement

	Before Deconsolidation and RVOS Rights Issue	Post Deconsolidation and RVOS Rights Issue	Variance
	US\$'000	US\$'000	
Revenue	66,625	8,729	(87%)
Cost of sales	(61,355)	(14,605)	(76%)
Gross profit/(loss)	5,270	(5,876)	N.M
Other income	1,962	3,169	62%
Administrative expenses	(6,294)	(3,194)	(49%)
Other operating expenses	(2,125)	(2,125)	-
Finance cost	(10,304)	(2,262)	(78%)
Share of results of associate	-	(507)	100%
Loss before tax	(11,491)	(10,795)	1%
Income tax expense	3	45	N.M
Loss for the period	(11,488)	(10,750)	-

N.M – Not meaningful

On the assumption the RVOS Rights Issue and Deconsolidation were effected on 1 April 2020 and assuming the Group equity accounts for its direct 40.7% interest in RVOS, the Group would record its 40.7% share of losses of associate of US\$0.507 million, as shown in the table above. The Group's loss for 6M2020 would be US\$10.8 million.

Under the Proposed Assignment, and if the Company's auditors are able to confirm the accounting treatment with respect to RVOS, then the Group would record the full share of losses of associate of US\$1.245 million. Accordingly, the Group's loss for 6M2020 would be US\$11.5 million for 6M2020.

5. Interested Person Transaction

RHC is an "Interested Person" within the meaning of Chapter 9 of the Catalist Rule, as RHC is a controlling shareholder of the Company.

Both RHC and VIC were entitled to their pro rata rights entitlements in the RVOS Rights Issue pursuant to RVOS Articles of Association. However, as the Group was not in a financial position to subscribe for its pro rata rights entitlement, VIC had renounced its rights entitlement of the 40,000 RVOS rights shares to RHC and RHC had subscribed for the entire RVOS Rights Issue. VIC's renunciation of the rights entitlement to RHC could be viewed as an Interested Person Transaction ("IPT") within the meaning of Chapter 9 of the Catalist Rules.

The New RVOS Shares were issued at the par value of SAR1,000 (US\$267) per RVOS share which was substantially lower compared to the NAV/NTA per RVOS share of SAR1,915 (US\$511) as at 30 September 2020. The value at risk of the IPT is the difference between the rights share price and the NTA per RVOS share of SAR915 (US\$244) x 40,000 RVOS rights shares, amounting to SAR36.6 million (US\$9.76 million). This represents 15.4% of the last audited NTA of the Group as at 31 March 2020.

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However, with the Proposed Assignment, the Company is of the view that it can continue to equity account 100% of RVOS' results. Thus, the Company is of the view that the value at risk of the IPT is zero and shareholders' approval for the IPT is not required.

The Board's decision on the Deconsolidation was a recent decision following the Board's meeting on 16 March 2021 in view of the regulatory developments in Saudi Arabia.

6. Status of the consultation with the SGX-ST

On 20 January 2021, the Company had provided our Sponsor a copy of the then draft announcement of the RVOS Rights Issue for their review. Following queries from the Sponsor on 22 January 2021, the Company had sought legal opinion on the applicability of the Catalist Rules on the above IPT.

Upon receipt of the legal opinion on 9 February 2021, the Company had, through the Sponsor, formally sought the SGX-ST's guidance on the following:

- (1) whether VIC in renouncing its pro rata entitlement of the 40,000 rights shares, which was fully taken up by RHC, is deemed to be an Interested Person Transaction and subject to shareholders' approval; and
- (2) whether, as a result of the reduction in VIC's shareholding interest in RVOS from 50% to 40.7%, the Company is in compliance with Catalist Rule 805(2)(a).

The Company shall provide an update once clarification has been obtained from the SGX-ST.

7. Interest of the Directors

None of the Directors or controlling shareholders of the Company has any interest, direct or indirect, in the RVOS Rights Issue, Proposed Assignment and the Deconsolidation other than in their respective capacities as directors and/or shareholders of the Company and/or RVOS, RHC and REC (as the case may be).

BY ORDER OF THE BOARD

Ling Yong Wah
Chief Executive Officer
31 March 2021

This document has been reviewed by the Company's Sponsor, Provenance Capital Pte. Ltd. It has not been examined or approved by the Singapore Exchange Securities Trading Limited (the "Exchange") and the Exchange assumes no responsibility for the contents of this document, including the correctness of any of the statements or opinions made or reports contained in this document.

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