Ezion Holdings Limited

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

RESPONSE TO THE SINGAPORE EXCHANGE SECURITIES TRADING LIMITED'S ("SGX-ST") QUERIES ON THE FIRST QUARTER FINANCIAL STATEMENTS FOR THE THREE MONTHS ENDED 31 MARCH 2020

The Board of Directors of Ezion Holdings Limited (the "**Company**") refers to its first quarter results announcement for the three months ended 31 March 2020, which was announced on 15 May 2020 (the "**1Q2020 Results**") and wishes to provide the following additional information in response to the queries raised by the SGX-ST on 8 June 2020:

Question 1: Please provide a breakdown of "Other income, net" of US$15,674,000 during 1Q2020 and explain what it specifically relates to.

Company's Response:

Please refer to page 1 of the 1Q2020 Results where the total foreign exchange gain of US$15,174,000 was disclosed. The remaining balance of Other Income, net of US$500,000 mainly pertains to insurance proceeds received during the period.

Question 2: The Company has disclosed that "The increase in other income for 1Q20 was mainly due to foreign exchange gain arising from the Group's borrowings and debt securities as the US Dollar appreciated against the Singapore Dollar during this period."

The Company recorded an amount of US$1,745,000 as "Other income, net" during the first quarter ended 31 March 2019 ("1Q2019"). Please provide the reason(s) for its significant increase to US$15,674,000 during 1Q2020, and explain how much of the said increase is attributable to "foreign exchange gain" by providing a percentage figure.

Company's Response:

Please refer to Note 8 - Income Statement Review of the 1Q2020 Results where it was explained that the increase in other income for 1Q2020 was mainly due to foreign exchange gain arising from the Group's SGD denominated borrowings and SGD denominated debt securities as the US Dollar appreciated against the Singapore Dollar during this period. The increase attributable to "foreign exchange gain" is greater than 100% as it was a foreign exchange loss in the 1Q2019 financial statements. This is disclosed in page 1 of the 1Q2020 Results.

Question 3: Please explain the foreign exchange gain of USS$15,174,000 during 1Q2020.

Company's Response:

Please refer to Note 8 - Income Statement Review of the 1Q2020 Results where it was explained that the increase in other income for 1Q2020 was mainly due to foreign exchange gain arising from the Group's SGD denominated borrowings and SGD denominated debt securities as the US Dollar appreciated against the Singapore Dollar during this period.

Question 4: With regard to "Other operating expenses" of US$212,601,000 incurred during 1Q2020, as compared to US$2,623,000 during 1Q2019. It is stated on page 9 of the announced financial results:- "The COVID-19 pandemic coupled with the collapse of oil prices has continued to have an adverse effect on the reactivation and deployment plans of the Group. Hence, the Group has updated its impairment assessment in 1Q20 and recognised impairment losses of US$212.2 million on plant and equipment, trade and other receivables and loan to joint ventures in other operating expense in 1Q20."

(a) Please provide a breakdown of the "other operating expenses" financial statement line item.

Company's Response:

The breakdown is as follows:

	US$'000
Impairment loss on:	
- property, plant and equipment	161,312
- trade receivables	1,594
- other current assets	11,334
- loan to joint venture	37,950
Total impairment loss	212,190
Depreciation of office equipment	60
Depreciation of right-of-use asset	127
Other expenses	224
Total	**212,601**

(b) Please provide a breakdown on the impairment loss on plant and equipment, trade and other receivables, and loan to joint ventures of US$212.2 million during 1Q2020, and explain what these impairment losses specifically relate to.

Company's Response:

Please see below for the breakdown of these impairment losses and what it relates to:

	US$'000
Impairment loss on:	
- property, plant and equipment	161,312
- trade receivables	1,594
- other current assets	11,334
- loan to joint venture	37,950
Total	**212,190**

For further information, please refer to the extract of Note 33 (C) from the annual report of the Company which was published on 10 June 2020 (the "**FY2019 AR**") as follows:

On 11 March 2020, the World Health Organisation declared the Coronavirus (COVID-19) outbreak to be a pandemic in recognition of its rapid spread across the globe, with over 150 countries now affected. Many governments are taking increasingly stringent steps to help contain or delay the spread of the virus. Currently, there is a significant increase in economic uncertainty which is, for example, evidenced by more volatile asset prices and currency exchange rates.

For the Group's 31 December 2019 financial statements, the Coronavirus outbreak and the related impacts are considered non-adjusting events. Consequently, there is no impact on the recognition and measurement of assets and liabilities.

The COVID-19 pandemic and the plunge in oil prices have however severely impacted the demand of the Group's vessels and rigs, contributing to decrease in utilisation and charter rates of the Group's vessels and rigs, which affect the contracts due for renewal post period-end. Consequently, this led to management recognising additional impairment losses after the year-end, i.e. for the year ending 31 December 2020, on the Group's property, plant and equipment, trade and other receivables and loan to joint venture, based on information to-date, as follows:

	US$'000
Property, plant and equipment	161,312
Trade receivables and other receivables	12,928
Loan to joint venture	37,950
	212,190

As the effects of the COVID-19 pandemic and the plunge in oil prices continue to unfold in the months ahead, there could be further impairment recognised on these assets in future periods.

(c) What business(es) are these impairment losses of US$212.2 million related to?

Company's Response:

The Group has 3 business segments: Liftboat, Jack-up rigs and Offshore support logistic services. The impairment losses were recorded for the following segments:

	Liftboat	Jack-up rigs	Offshore support logistic services	Total
	US$'000	US$'000	US$'000	US$'000
Impairment loss	178,319	33,553	318	**212,190**

(d) Please elaborate further on the updated impairment assessment and its basis, which recognises a significantly higher amount of impairment losses of US$212,190,000 during 1Q2020 as compared to US$252,000 in 1Q2019.

Company's Response:

In 1Q2020, the following event occurred:

(1) the COVID-19 pandemic has introduced significant increase in economic uncertainty which is for example, evidenced by more volatile asset prices and currency exchange rates; and

(2) The plunge in oil prices have severely impacted the demand of the Group's vessels and rigs, contributing to decrease in utilisation and charter rates of the Group's vessels and rigs, which affect the contracts due for renewal post period-end.

There was no such event of this scale in 1Q2019 and hence, the impairment losses recognised in 1Q2019 Results was significantly lower as compared to 1Q2020 Results.

(e) Please provide the Board of Director's opinion on the reasonableness of the methodologies used to determine the value of the impairments amounting to S$212.2 million on plant and equipment, trade and other receivables and loan to joint ventures.

Company's Response:

Please note that the impairment recognised by the Group in the 1Q2020 Results is approximately US$212.2 million and not S$212.2 million as per query.

The Board has reviewed the outcomes of the impairment assessment process for the Group's liftboats, jack-up rigs and offshore support logistics vessels. The Board had also focused on the key assumptions applied in the determination of the value-in-use or fair value less costs of disposal of the cash generating units.

The Board reviewed the aging profile of the trade receivables and had discussed with Management on the recoverability on the long outstanding trade receivables and the expected credit losses model.

The Board discussed with Management on their approach to assess the recoverability of loans and advances to joint ventures and joint operations. Specifically, the Board evaluated the methodology and basis adopted by management to determine the recoverability of the said loans and advances.

The Board was satisfied with the impairment review process, the approach and methodology used during the valuation process.

(f) In relation to the impairment of the trade and other receivables, please clarify:-

a. The plans to recover the trade and other receivables;

Company's Response:

In relation to the impaired trade receivables, the Group has responsible personnel which oversees the recovery actions and report on the recovery prospects of such trade receivables. Where necessary, it will consult its legal advisors to exercise its right to take legal action.

In relation to the impaired other receivables, they mainly consist of advances made to joint ventures and joint operations (as mentioned in the Company's response to Question 5 below) which are quasi equity in nature and the recovery of these amounts is based on income from future contracts obtained by the joint ventures and joint operations or the realisation of the joint ventures' and joint operations' underlying asset.

b. Whether they are major customer(s) and whether the Group continues to transact with these customer(s);

Company's Response:

The impaired trade receivables relate to a major customer of the Group's. Currently, the Group still has an existing charter contract with the said customer until mid-June 2020.

c. How long are the debts outstanding and when were the sales reported;

Company's Response:

The impaired trade receivables are outstanding for more than 90 days and relates to FY2019 revenue.

d. What were the actions taken to recover the trade and other receivables; and

Company's Response:

Currently, the Group is in negotiation with the said customer to recover the debts.

e. The Board of Director's assessment on the recoverability of the remaining trade and other receivables.

Company's Response:

The Board has reviewed the aging profile of the trade receivables and had discussed with Management on the recoverability on the long outstanding trade receivables and the expected credit losses model. In assessing the Group's remaining trade receivables, in addition to the expected credit losses model, Management also considers the various qualitative and quantitative factors such as (a) the financial condition of the customer; (b) payment history; and (c) the aging profile. Management regularly monitors these factors and provides for impairment losses, if necessary.

The Board has discussed with Management on their approach to assess the recoverability of advances to joint ventures and joint operations. The Board has also evaluated the methodology and basis adopted by Management to determine the recoverability of the said advances.

Pursuant to its review and discussions with Management, the Board is in agreement with Management's review process on the recoverability of the remaining trade and other receivables.

Question 5: Please provide a breakdown and clarify the nature of the Group's "Other current assets" financial statement line item amounting to US$46,936,000 as at 31 March 2020. It is also stated on page 10 of the announced financial results:- "The decrease as compared to the Group's Current Assets as at 31 December 2019 was mainly due to the impairment of the other current assets during the period." What is this impairment of other current assets? Is it part of the impairment loss of US$212.2 million (as mentioned in Question (iv) above)?

Company's Response:

The breakdown is as follows:

	US$'000
Deposits paid	587
Advance payment to suppliers	1,447
Prepayments	1,604
Recoverables	4,551
Non-trade amounts due from joint ventures and joint operations	38,747
Total	**46,936**

Impairment of other current assets is US$11,334,000 for Q12020 and is mainly due to impairment of non-trade amounts due from joint ventures and joint operations. The impairment is part of the US$212.2 million impairment loss made.

Please see breakdown of impairment loss for each line item is mentioned in 4 (b) above.

Question 6: We note that the Group has secured and unsecured borrowings and debt securities of US$1,398,483,000 and US$176,237,000 respectively, which are repayable in one year or less, or on demand.

(a) How does the Group intend to repay the aggregate sum of US$1,574,720,000?

Company's Response:

Please refer to the Group's prior announcements made on 28 February 2020, 4 March 2020, 13 March 2020 and 10 April 2020 in relation to the Proposed Transactions and the Proposed Scheme of Arrangement (collectively, the "**Corporate Restructuring**"), announcements made on 4 June 2020 on General Updates, 8 June 2020 on Disclaimer of Audit Opinion and 10 June 2020 on the Company's FY2019 annual report. The following is a summary from the announcements and the Company's FY2019 annual report:

The Company had entered into agreements on 28 February 2020 with a potential investor to, amongst others:

- Capitalise debts of US$482.3 million that shall be acquired by the potential investor from the Group's lenders;
- Receive cash consideration of US$47.0 million for subscription of shares into the Company; and
- To file the necessary applications to propose a scheme of arrangement, which will compromise at least US$740.0 million of the Group's debt.

The completion of the Corporate Restructuring is crucial to the Company and Group's ability to repay the aggregate sum of US$1,574,720,000 as it would have:

- Reduce the Group's debt by US$482.3 million;
- Receive cash consideration of US$47.0 million; and
- Compromise the Group's remaining debt by US$740.0 million.

The Group's debt would have been reduced/compromised to a sustainable amount of approximately US$403.0 million. However, the filing of the proposed scheme of arrangement has been delayed as announced on 10 April 2020 by the Company.

As announced on 4 June 2020, in light of the COVID-19 pandemic and plunge in oil prices, the Company re-entered into negotiations with the potential investor and the Group's lenders to update certain terms of the Corporate Restructuring. The Company remains in such negotiations as at the date of this announcement.

In addition, as announced on 8 June 2020, the Company announced that its 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 in their independent auditors' report. The following is an extract of the announcement that is relevant:

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.

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.

(b) How much of the aggregate amount of US$1,574,720,000 is attributable to borrowings and debt securities which are repayable on demand? Further, what are the conditions or circumstances which would trigger repayment to be made on demand?

Company's Response:

The breakdown of financial liabilities is as follows:

	US$'000
Financial guarantee payable	134,443
Debt securities	167,965
Bank borrowings	1,272,312
Total	1,574,720

Bank borrowings and financial guarantee payable

As disclosed in the Company's FY2019 annual report, the Group breached its loan covenant requirements as follows:

- the maintenance of net debt (defined as borrowings owing to banks, financial institutions and debt securities holders, net of cash balances) to equity ratio of not more than 8:1; and

- the maintenance of EBITDA (defined as profits before interest expenses, tax expenses, depreciation expenses and amortisation expenses) to interest expense ratio of at least 1:1.

The affected bank loans and financial guarantees can be called for repayment upon notification by the banks. There has not been an issue of statutory demand for the affected bank loans and financial guarantees to be repaid immediately. However, the Group intends to address the default of its bank loans and debt securities through the Corporate Restructuring, subject to the outcome of the ongoing negotiations.

Debt securities

As disclosed in the Company's FY2019 annual report, the Group breached its loan covenant requirements for the bank loans (see above) resulting in a cross-default of its debt securities. As a result, the debt securities were reclassified to current liabilities as at 31 December 2019. The Group intends to address the default of its debt securities through the Corporate Restructuring, subject to the outcome of the ongoing negotiations.

(c) Please provide further information on whether the Company expects cash flow or liquidity issues with regard to the repayment of the aggregate sum of US$1,574,720,000, in light of the COVID-19 situation and its impact on the Company's business operations (if any). Please substantiate the Company's stand with specific details. Where applicable, please elaborate on the matters set out in our Regulator's Column "What SGX expects of issuer's disclosures during COVID-19" dated 22 April 2020.

Company's Response:

Please see responses to question 6 (a) above.

Question 7: The Company has disclosed that "As at 31 March 2020, the Company had S$138.1 million of outstanding convertible bonds and perpetual securities available for conversion into 499,638,075 ordinary shares of the Company (the conversion price is reset every six months)."

Please address whether the Company expects cash flow or liquidity issues with regard to its ability to meet its debt obligations under its outstanding convertible bonds and perpetual securities, in light of the COVID-19 situation and its impact on the Company's business operations (if any). Please substantiate the Company's stand with specific details.

Where applicable, please elaborate on the matters set out in our Regulator's Column "What SGX expects of issuer's disclosures during COVID-19" dated 22 April 2020.

Company's Response:

Convertible bonds

On 8 June 2020, the Company announced that its 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 in their independent auditors' report.

The following is an extract of the 8 June 2020 announcement that is relevant for the convertible bonds:

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.

The Group intends to address the default of the debt securities through the Corporate Restructuring, subject to the outcome of the ongoing negotiations as mentioned in our responses to question 6 (a) above.

Perpetual securities

As disclosed in the Company's FY2019 annual report, the perpetual securities have no fixed maturity date and shall constitute direct, unconditional, unsubordinated and unsecured obligations of the Company and shall at all times rank *pari passu*, without any preference among themselves, and with any parity obligations of the Company. The amended perpetual securities may be redeemed at the option of the Company on or after 20 November 2024.

The distribution rate of the perpetual securities are as follows:
- 7% per annum for the period before 20 November 2017;
- 0.25% per annum for period between 28 March 2018 to 19 November 2024;
- 1.25% for the period from 20 November 2024 to 20 November 2025; and
- an increase in 1% per annum thereafter on the 21 November of each succeeding year.

The distribution interest above may be deferred at the sole discretion of the Company.

Question 8: We note that "The share of losses of associates and jointly controlled entities in 1Q20 was due to operating losses incurred by the Group's joint venture."

Please provide further details on which joint venture is being referred to, the exact amount of operating losses attributable to this joint venture and explain the circumstances leading to these operating losses.

Company's Response:

The share of loss for 1Q2020 amounting US$151,000 is contributed solely by a 50% joint venture of the Group, Sinomarine & Teras (Tianjin) Offshore Co. Ltd, the Group's China, which is principally engaged in operation of offshore windfarm support vessels' services. Due to the winter season, the utilisation of the joint venture's vessel has decreased for the period and thus, incurred losses.

Question 9: We note that the Group has a loss after tax of US$211,294,000. In addition, "The Group and the Company have net liabilities of US$1,083.5 million and US$1,193.0 million respectively as at 31 March 2020."

In this regard, please provide the Board's opinion and the basis for its views on the following:

(a) The ability of the Company and the Group in meeting its short term debt obligations as and when they fall due; and

Company's Response:

Please refer to note 8 - Going Concern Review of the 1Q2020 Results and the announcement made by the Company on 8 June 2020 (as mentioned in our responses to question 6 (a) above) where the Board and Management have discussed and expressed their opinion on the ability of the Company and the Group in meeting its short term debt and obligations as and when they fall due.

(b) The ability of the Company and the Group to operate as going concerns.

Company's Response:

Please refer to note 8 - Going Concern Review of the 1Q2020 Results and the announcement made by the Company on 8 June 2020 (as mentioned in our responses to question 6 (a) above) where the Board and Management have discussed and expressed their opinion on the ability of the Company and the Group to operation as a going concern.

BY ORDER OF THE BOARD

Goon Fook Wye Paul
Company Secretary
11 June 2020