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3 Critical accounting judgements and key sources of estimation uncertainty

Critical judgements in applying the entity's accounting policies

In the process of applying the Group's accounting policies, which are described in Note 2, management has made the following judgements that have the most significant effect on the amounts recognised in the financial statements (apart from those involving estimations, which are dealt in the preceding paragraphs).

Going concern assumption

With the outbreak of coronavirus disease of 2019 ("COVID-19") pandemic during the financial period, the Singapore and Malaysia Governments enacted its emergency plan which has seen the closure of Singapore and Malaysia borders from March/April 2020 and has resulted in an increased level of restrictions on certain business operations. This pandemic has also resulted in significant volatility and instability in the financial markets. The outlook remains highly uncertain.

This pandemic has a significant impact on its significant subsidiaries which operate as marine distributors and dealership in Singapore and Malaysia. There is a significant uncertainty in relation to the extent and period over which these developments will continue, and they may have a significant impact on the Group's and Company's financial positions, financial performances and future cashflows.

The Group and the Company incurred a net loss of $6,650,000 (2019: $23,182,000) and $6,235,000 (2019: $21,753,000) respectively for the financial year ended 31 March 2020 and as at that date, the Group's current liabilities exceeded its current assets by $23,912,000 (2019: $21,282,000) for continuing operations.

As disclosed in Note 26, certain subsidiaries have breached their loan covenants as the Company, who is the corporate guarantor of the subsidiaries' loans, did not fulfil the requirement to maintain a minimum consolidated tangible net worth of $30 million (2019: $40 million) and a subsidiary did not fulfil the requirement to maintain a minimum debt service coverage ratio of 1.5 times. As a result, non-current bank loans have been classified to current liabilities in accordance with the requirements of SFRS(I) 1-1 *Presentation of Financial Statements*.

On 16 December 2020, the subsidiaries obtained waiver on the breach on a one-off basis together with the revision of loan covenant to maintain a minimum consolidated tangible net worth of $25 million at all times.

These factors indicate the existence of a material uncertainty which may cast significant doubt on the ability of the Group and the Company to continue as a going concern. Nevertheless, management is of the opinion that the use of the going concern basis in the preparation of the financial statements is appropriate, after taking into consideration the following:

(a) As disclosed in Note 10, the Group entered into a legally-binding term sheet with a third party purchaser to dispose its subsidiary, Biofuel Research Pte Ltd, for a cash consideration of $5,585,400 on 11 May 2020. The Group has on 11 May 2020 received from the purchaser a cashier's order of $1,500,000 being the first tranche of purchase consideration and deposited into the Group's bank account in December 2020. The definitive sales and purchase agreement has been entered between the Group and the purchaser on 7 August 2020 and management expects the disposal to be completed not later than 31 March 2021 upon satisfactory fulfilment of all conditions precedent to the agreement including satisfactory completion of due diligence review by the purchaser and the approval of the disposal by shareholders of the Company and by SGX-ST.

(b) The Group obtained written confirmations from the bank concerned on 16 December 2020 that the bank has agreed to accommodate the breach of loan covenants on a one-off basis for the financial year ended 31 March 2020. As a result, management is of the view that the bank will not request for immediate repayment of the outstanding loan amounts even though there was a breach of loan covenants. Had it not been for the breach of the loan covenants and the resultant classification of non-current bank loans to current liabilities, the Group's total current assets would have exceeded total current liabilities by $5,971,000 for continuing operations;

(c) The recent eruption of the global COVID-19 pandemic has caused significant disruption to the way how the Group businesses operate. With the global shutdown across borders, Recycling of waste oil segment which largely are exported, has taken a deep hit to the Group's revenue. The Group's core revenue contributor from the marine segment has also bear the brunt of the impact as a result of the Movement Control Order ("MCO") in Malaysia where a large part of the Marine revenue is earned. Similarly, for the rental income from the letting out of industrial office space and dormitory beds. Tenants are taking longer than usual to pay their rent which in turn impact on the cash flow of the Group.

As a result of the global economic devastation, the Group has to recalibrate the costs of doing businesses so that the Group can better manage its working capital while improving the liquidity in the current cashflow rigid situation. In the current environment where the Group's sales are depressed amid the current COVID-19 pandemic situation, in short term, the Group has only to relook to control its costs which would ultimately impact its profitability; which is why starting 1 June 2020, the Group has implemented a permanent pay cut of 10% to 30% as one of its cost control measure.

On the other hand, the Group is also on the lookout to increase its revenue stream by venturing into the manufacturing of hand sanitizers, expanding the revenue base of the IQAir product and penetrating the Indonesia and Malaysia market of its calibration business.

The Group is able to generate sufficient cash flows from its operating activities to support its operating expenditure for the next 12 months from the reporting year ended 31 March 2020; and

(d) Management is actively seeking additional external equity financing from new investors.

If the Group and the Company are unable to continue in operational existence for the foreseeable future, the Group and the Company may be unable to discharge its liabilities in the normal course of business and adjustments may have to be made to reflect the situation that assets may need to be realised other than in the normal course of business and at amounts which could differ significantly from the amounts at which they are currently recorded in the statement of financial position. In addition, the Group and the Company may have to provide for further liabilities that might arise and to reclassify non-current assets and liabilities as current assets and liabilities. No such adjustments have been made to these financial statements.

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26 Borrowings (cont'd)

(c) Breach of covenant

As at 31 March 2020, certain subsidiaries have breached its loan covenant as the Company, who is the corporate guarantor, did not fulfil the requirement to maintain a minimum consolidated tangible net worth of $30 million (2019: $40 million) and a subsidiary did not fulfil the requirement to maintain a minimum debt service coverage ratio of 1.5 times. As a result, the bank is contractually entitled to request for immediate repayment of the outstanding loan amounts of $25,013,000 (2019: $26,773,000) from continuing operations and of $815,000 (2019: $1,749,000) from discontinued operation in which $24,033,000 (2019: $25,419,000) are due after 12 months from the end of the reporting year. The non-current bank loans of discontinued operation amounted to $51,000 (2019: $721,000) at the end of the reporting year were classified as liabilities of a disposal group held for sale under current liabilities in accordance with the requirement of SFRS (I) 5, *Non-current Assets Held for Sale and Discontinued Operations*. Consequently, the non-current bank loans of continuing operations amounted to $23,982,000 (2019: $24,698,000) at the end of the reporting year were classified as current liabilities in accordance with the requirement of SFRS (I) 1-1, *Presentation of Financial Statements.*

On 16 December 2020, the subsidiaries obtained waiver on the breach on a one-off basis together with the revision of loan covenant to maintain a minimum consolidated tangible net worth of $25 million at all times.

Appendix 2

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