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

The Group and the Company incurred a net loss of $1,269,000 (2020: $6,650,000) and $4,601,000 (2020: $6,235,000) respectively for the financial year ended 31 March 2021 and as at that date, the Group's current liabilities exceeded its current assets by $4,050,000 (2020: $18,009,000). The Group's significant operations in Singapore and Malaysia were affected by the spread of COVID-19 and it will continue to have an impact on the Group's financial position, financial performance, cash flows and prospects for the foreseeable future. The Group's financial performance was also negatively impacted by the fair value loss on investment properties of $2,000,000 and there is an on-going litigation regarding this investment properties as disclosed in Note 29 (iii). Also, the financial performance of the Company was mainly due to impairment loss in amount due from subsidiaries (Note 18).

Due to the inherent uncertainty arising from the continually evolving situation, it was challenging to predict the full extent and duration of COVID-19 pandemic and its' impact on the stability and volatility in the financial markets.

As at 31 March 2021, the Group has outstanding bank loan and trade financing of $4,349,000 (2020: $4,395,000) and $8,352,000 (2020: $9,349,000) respectively that were defaulted since 2019 and classified as current liabilities (Note 24). Nonetheless, the Group has been making constructive repayment for these bank loan and trade financing of $45,000 and $668,000 respectively for the financial year ended 31 March 2021. As of the date of this report, bank for these borrowings have not issued any demand for immediate repayment. In addition, the details of the Group's contingent liabilities are disclosed in Note 29.

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 going concern. Nonetheless, the 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) The review of the cash flow forecasts of the Group and of the Company subsequent to the financial year ended 31 March 2021 showed that the Group and the Company have adequate resources and will be able to generate sufficient cash flows in the next 24 months to meet their financial obligations as and when they fall due taking into the following consideration:

   (i) The Group's activities continue to generate positive cash flows for the Group and the Company in the next 24 months despite the slowdown in the operating environment;

   (ii) The Group is reorganising the operational structure for marine distributors and dealership and calibration of environmental equipment by moving into the same premise in year 2022 for a more efficient management over working capital of these two major segments. Simultaneously, the Group is expected to dispose two of the premises (comprised of offices and factory) that two subsidiaries are currently occupying, and the proceeds will be used to service the external borrowings and thereby reducing the Group's financing cost;

(iii) The Group's marine distributors and dealerships segment is on a positive trend amidst the pandemic and continual growth is expected along the recovery of the global economy. The Group is also reshaping the strategic direction to serve other markets along the value chain in this segment. This expansion will strengthen the Group's position along the value chain and improve the contribution from marine distributors and dealerships segment;

(iv) The Group's calibration of environmental equipment segment is expected to register a commendable growth with the increasingly demand for air purifications systems and a proactive marketing approach taken by the Group's covering Singapore and Indonesia market;

(v) Property investments segment of the Group is rather stable due the tenants' portfolio and is supported by medium to long-term leases. It is expected to continue to generate steady cash inflow for the Group; and

(vi) The Group explored into animal feed industry by carry on the trial run for its Black Soldier Fly ("BSF") Farm Project through its subsidiary under recycling of waste oil segment. Upon the completion of the nursery and the commencement of the production, it is expected to generate additional cash inflow for the Group.

b) The Group is engaged in discussion with potential investors to provide fresh investment funds and business opportunities to the Group to meet its debt obligations and capital needs;

c) The Group obtained written confirmations from the bank concerned on 30 March 2021 that the bank has agreed to accommodate the breach of loan covenants on a one-off basis for the financial year ended 31 March 2021. As a result, the 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; and

d) The Group is in constant discussion with the bankers to plan for the restructuring and repayment of the aforementioned bank loan and trade financing along with one of the leasehold properties with the market value of $5,800,000 as at 31 March 2021 being tabled for disposal with the consent of bankers as part of the restructuring.

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 their liabilities in the normal course of business. 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 statements 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.

24 Borrowings (cont'd)

c) Breach of covenant and default

On 30 March 2021, the Group's subsidiaries obtained letters from the bank to accommodate the breach of loan covenants on a one-off basis as the Company, who is the corporate guarantor, did not fulfil the requirement to maintain a minimum consolidated tangible net worth of $25 million and a subsidiary did not fulfil the requirement to maintain a minimum debt service coverage ratio of 1.5. In addition to the waiver granted, on 30 March 2021, the bank also revised the loan covenant for the Company to maintain a minimum consolidated tangible net worth of $20 million at all times.

Interest payables of $492,000 on the Group's borrowings were due but remained unpaid as at 31 March 2021. The carrying amount of total borrowings in default as at 31 March 2021 were $12,701,000. Accordingly, these borrowings were classified as current liabilities on the statements of financial position as at 31 March 2021.

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 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 from continuing operations and of $815,000 from discontinued operation in which $24,033,000 are due after 12 months from the end of the reporting year. The non-current bank loans of discontinued operation amounted to $51,000 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 at the end of 31 March 2020 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.