

# INDEPENDENT AUDITOR'S REPORT

TO THE MEMBERS OF EMS ENERGY LIMITED

## Report on the Audit of the Financial Statements

### Disclaimer of Opinion

We were engaged to audit the financial statements of EMS Energy Limited (the "Company") and its subsidiaries (the "Group") as set out on pages 64 to 138, which comprise:

- the consolidated statement of financial position of the Group and the statement of financial position of the Company as at 31 December 2018; and
- the consolidated statement of comprehensive income, consolidated statement of changes in equity and consolidated statement of cash flows of the Group for the financial year then ended, and
- notes to the financial statements, including a summary of significant accounting policies.

We do not express an opinion on the accompanying consolidated financial statements of the Group and 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

#### 1. Going Concern and Completeness of Liabilities

As disclosed in Note 4 to the financial statements, the Group suffered a loss of \$26.4 million for the financial year ended 31 December 2018. As at 31 December 2018, the Group's current liabilities exceeded its current assets by \$109.0 million and its total liabilities exceeded its total assets by \$98.1 million. The Company's current liabilities exceeded its current assets by \$53.8 million and its total liabilities exceeded its total assets by \$43.0 million. The Group's cash and bank balances as at 31 December 2018 amounted to approximately \$107,000.

As at 31 December 2018, the Group's total assets mainly comprised the yard included in property, plant and equipment. To date, all efforts undertaken by management to complete the construction of the yard have not been successful. The yard sits on a piece of land that the Group leased from a landlord. The Group negotiated its lease payment schedule with the landlord and requested for an extension of time to complete the construction of the yard as the stipulated deadline in the lease agreement had past. In the event that the Group is not able to make the monthly payment of \$35,000 or unable to obtain further extension of the construction period, the landlord may repossess the land and the yard under construction.

While the admission of debts under the Company's scheme of arrangement is completed, the admission of debts under the scheme of arrangement of EMS Energy Solutions Pte Ltd ("EES scheme") is still in progress. In addition, the debts admitted in the schemes have to be converted into shares in order for the schemes to be successful. The resumption of trading of the Company's shares is dependent on the Group having a viable business so as to be able to generate sufficient cash flows to continue its operations.

# INDEPENDENT AUDITOR'S REPORT

TO THE MEMBERS OF EMS ENERGY LIMITED

## Report on the Audit of the Financial Statements (Continued)

### Basis for Disclaimer of Opinion (Continued)

#### 1. Going Concern and Completeness of Liabilities (Continued)

These conditions, together with the other matters disclosed in Note 4, indicate the existence of multiple material uncertainties that may cast significant doubt about the Group's and the Company's abilities to continue as going concerns. The Directors of the Company are of the view that it is appropriate to prepare the financial statements of the Group and the Company on a going concern basis having regard to management's plans as disclosed in Note 4.

Management has not provided us with a cash flow forecast for us to assess whether the Group and the Company are able to generate sufficient cash flows for at least the next twelve months from the date of the financial statements. We were also unable to obtain sufficient appropriate audit evidence to evaluate the feasibility and effectiveness of management's plans in relation to the completion of the yard, the implementation of the schemes and the proposed acquisition. In addition, further liabilities may be required to be recognised by the Group arising from the various legal claims and ongoing admission of debts under the EES scheme.

Accordingly, we were unable to determine the completeness of liabilities recognised by the Group as at 31 December 2018 and assess whether the use of the going concern basis of accounting in the preparation of the accompanying financial statements is appropriate. Our opinion on the prior year's financial statements was also modified on a similar basis.

#### 2. Impairment of Property, plant and equipment

As at 31 December 2018, the Group's property, plant and equipment mainly comprised a yard under construction with carrying amount of approximately \$10.7 million held by the Company. The construction of the yard stalled since 2016 as the Group did not have sufficient funds to complete the construction. The yard sits on a piece of land that the Group leased from a landlord where a monthly payment of \$35,000 is required. If the Group is unable to obtain further extension of time to complete the construction, the landlord may repossess the land and the yard under construction.

These conditions indicate that the yard under construction may be impaired as at 31 December 2018. No provision for impairment has been made for the yard for the financial year ended 31 December 2018.

Based on the limited information available, we were unable to obtain sufficient appropriate audit evidence on whether the Group will be able to obtain funds to complete the construction of the yard and to make the monthly lease payments to the landlord. We were also unable to satisfy ourselves that there was no impairment loss on the yard as management did not provide us with their assessment of the recoverable amount of the yard. Accordingly, we were unable to determine whether adjustments may be necessary to the carrying amount of the yard of approximately \$10.7 million as at 31 December 2018. Our opinion on the prior year's financial statements was also modified on the same basis.

# INDEPENDENT AUDITOR'S REPORT

TO THE MEMBERS OF EMS ENERGY LIMITED

## Report on the Audit of the Financial Statements (Continued)

### Basis for Disclaimer of Opinion (Continued)

#### 3. Amounts due from deconsolidated subsidiaries

As at 31 December 2017, the Group's and the Company's amount due from deconsolidated subsidiaries amounted to \$20.3 million and \$1.6 million respectively. As these receivables are long outstanding and coupled with the liquidation of Koastal Industries Pte Ltd, there was objective evidence of impairment of these receivables. No impairment of these receivables was made by management for the financial year ended 31 December 2017.

For the financial year ended 31 December 2018, management had fully impaired the amounts due from the deconsolidated subsidiaries of the Group and the Company amounting to \$20.7 million and \$1.7 million respectively.

We were unable to obtain sufficient appropriate audit evidence regarding the recoverability of the amounts in 2017 and the full impairment made in 2018, as management was unable to support their bases and we were also unable to satisfy ourselves through alternative means. Consequently, we were unable to determine whether adjustments to the accompanying financial statements may be necessary.

#### 4. Investment in unquoted equity shares

As disclosed in Note 15 to the financial statements, the Group had fully impaired its investment in unquoted equity shares in prior financial years and recorded impairment loss of approximately \$4.5 million and \$4.0 million for the financial years ended 31 December 2016 and 2017 respectively. We were unable to obtain sufficient appropriate audit evidence to determine the appropriateness of the impairment loss recognised in 2016 and 2017.

Prior to 1 January 2018, the Group classified the investment as available-for-sale financial asset. Subsequently as required by SFRS(I) 9, the Group designated this investment in unquoted equity shares as financial asset at fair value through profit or loss as at 1 January 2018. The fair value of the financial assets was assessed as \$Nil by management as at 1 January 2018 and 31 December 2018.

We were unable to obtain sufficient appropriate audit evidence on the fair value of \$Nil as at 1 January 2018 and 31 December 2018, as management was unable to support their bases and we were also unable to satisfy ourselves through alternative means. Consequently, we were unable to determine whether adjustments to the accompanying financial statements may be necessary.

#### 5. Valuation of financial derivative liabilities

As at 31 December 2016 and 2017, the fair values of the Group's financial derivative liabilities amounted to approximately \$2.9 million and \$1.9 million respectively. The Group also credited approximately \$1.0 million to profit or loss due to the expiry of the share warrants during the financial year ended 31 December 2017. We were unable to obtain sufficient appropriate audit evidence on the fair values of the financial derivative liabilities in 2016 and 2017, and the reversal of \$1.0 million to profit or loss in 2017 with regards to the expired share warrants.

# INDEPENDENT AUDITOR'S REPORT

TO THE MEMBERS OF EMS ENERGY LIMITED

## Report on the Audit of the Financial Statements (Continued)

### Basis for Disclaimer of Opinion (Continued)

#### 5. Valuation of financial derivative liabilities (Continued)

As at 31 December 2018, the fair value of the Group's financial derivative liabilities amounted to approximately \$1.9 million.

We were unable to obtain sufficient appropriate audit evidence on the fair value of the financial derivatives liabilities as management was unable to support their bases and we were also unable to satisfy ourselves through alternative means. Consequently, we were unable to determine whether adjustments to the accompanying financial statements may be necessary.

### 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 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.

### Auditor's Responsibilities for the Audit of the Financial Statements

Our responsibility is to conduct an audit of these financial statements in accordance with Singapore Standards on Auditing and to issue an auditor's report. 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 within the meaning of 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.

# INDEPENDENT AUDITOR'S REPORT

TO THE MEMBERS OF EMS ENERGY LIMITED

## Report on Other Legal and Regulatory Requirements

In our opinion, in view of the significance of the matters referred to 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 auditor's report is Philip Aw Vern Chun.

### **BDO LLP**

Public Accountants and  
Chartered Accountants

Singapore  
12 April 2019

