

NOTES TO THE FINANCIAL STATEMENTS

FOR THE FINANCIAL YEAR ENDED 31 DECEMBER 2018

4. Going concern

The Group generated 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.

To date, all efforts undertaken by management to complete the construction of the yard has 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 extensions of the construction period, the landlord may repossess the land and the yard under construction. This could potentially result in the Company being in negative equity, even after the conversion of its debts to equity under the Company's scheme of arrangement.

The admission of debt under the Company's scheme of arrangement is completed, whilst the EMS Energy Solutions Pte Ltd's ("EES") scheme of arrangement has not completed the admission of debt to date. Nevertheless for the schemes to be successfully implemented the debt has to be converted to shares as stipulated in the scheme. The Company's shares must resume trading before the scheme shares can be issued. The resumption of trading is dependent on the Company and the Group being able to demonstrate its ability to generate sufficient cash through a viable business going forward.

The above conditions 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.

Notwithstanding the above, the Directors of the Company are of the opinion that the Group and the Company are able to meet their obligations as and when they fall due and it is appropriate for the financial statements to be prepared on a going concern basis, having regard to the following:

- (i) The management is confident that it will be able to successfully complete the implementation of the SOA of the Company and EES, and thus significantly reducing the Company's liabilities.
- (ii) The Company had made an announcement on the proposed acquisition of 52.76% of the issued and paid up share capital of Nosco Shipyard Joint Stock Company. This proposed acquisition attempts to inject a new revenue stream that the Group needs to exhibit that it will be able to generate sufficient cash flow going forward to continue in operation.
- (iii) The Company is actively pursuing potential investors/partners to resume the construction work on the yard with the aim to commence operations as soon as possible. Management is confident that they will be successful in securing the necessary investment to complete the yard.
- (iv) The Company is also exploring other opportunities that could satisfy the going concern and business viability issues and would make an announcement when necessary.

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 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 statements of financial position. In addition, the Group and the Company may need to reclassify non-current assets. No such adjustments have been made to these financial statements.