NOTES TO THE FINANCIAL STATEMENTS

For the financial year ended 31 December 2018

These notes form an integral part of and should be read in conjunction with the accompanying financial statements.

These financial statements were authorised for issue in accordance with a resolution of the Board of Directors of Mencast Holdings Ltd on 3 April 2019.

1. General information

Mencast Holdings Ltd (the "**Company**") is listed on the Mainboard of Singapore Exchange Securities Trading Limited ("**SGX-ST**") and incorporated and domiciled in Singapore. The address of its registered office is 42E Penjuru Road, Mencast Central, Singapore 609161.

The principal activity of the Company is that of investment holding. The principal activities of its subsidiary corporations are disclosed in Note 16 to the financial statements.

2. Significant accounting policies

2.1 Basis of preparation

These financial statements have been prepared in accordance with Singapore Financial Reporting Standards International ("**SFRS(I)**") under the historical cost convention, except as disclosed in the accounting policies below.

The preparation of financial statements in conformity with SFRS(I) requires management to exercise its judgement in the process of applying the Group's accounting policies. It also requires the use of certain critical accounting estimates and assumptions. The areas involving a higher degree of judgement or complexity, or areas where assumptions and estimates are significant to the financial statements are disclosed in Note 3.

Going concern

In preparing the financial statements, the Board of Directors have considered the operations of the Group and the Company as going concerns notwithstanding that the Group and the Company incurred a net loss of $6,613,000 and $3,301,000 for the financial year ended 31 December 2018 respectively (2017: $80,664,000 and $18,103,000) and as at that date, the Group and the Company are in net current liabilities position of $90,503,000 and $10,631,000 respectively (2017: net current liabilities position of $166,787,000 and $7,660,000) and has also breached certain financial covenants for most of its loan agreements.

The above conditions indicate the existence of material uncertainties which may cast significant doubt on the Group's and the Company's abilities to continue as going concerns. Nevertheless, the Board of Directors believes that the use of the going concern assumption in the preparation of the financial statements for the financial year ended 31 December 2018 is still appropriate after taking into consideration the following assumptions and measures:

(a) On 1st February 2019, the Group had entered into a DRA with its lenders. The material terms of the DRA are disclosed in Note 31 and the Group is expecting to meet these terms in the DRA and if not, an extension can be obtained;

(b) The Group is in discussions and/or looking for potential parties in respect of certain properties and assets divestment plan to pare down its borrowings in accordance with the DRA;

(c) The Group incurred a lower net loss of $6,613,000 (2017: $80,664,000), generated positive operating cash flow from operations of $10,486,000 (2017: $16,648,000) and the Group's net current liabilities position improved to $90,503,000 (2017: $166,787,000) for the financial year ended 31 December 2018; and

(d) The Group is able to generate positive cash flow from operations for the next twelve months and with the moratorium of loan principal repayment, the Group would have sufficient cash to meet its other obligations as and when they fall due for the next twelve months.

2. Significant accounting policies (continued)

2.1 Basis of preparation (continued)

Going concern *(continued)*

In the event that 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 balance sheet. In addition, the Group and the Company may have to provide for further liabilities that might arise, and to reclassify non-current assets and non-current liabilities as current assets and current liabilities respectively. The financial statements do not include any adjustment which may arise from these uncertainties.

2.2 Adoption of SFRS(I)

As required by the listing requirements of Singapore Exchange, the Group has adopted SFRS(I) on 1 January 2018. These financial statements for the year ended 31 December 2018 are the first set of financial statements the group has prepared in accordance with SFRS(I). The Group's previously issued financial statements for the periods up to and including the financial year ended 31 December 2017 were prepared in accordance with Singapore Financial Reporting Standards ("**SFRS**").

In adopting SFRS(I) on 1 January 2018, the Group is required to apply all of the specific transition requirements in SFRS(I) First-time Adoption of SFRS(I) 1.

Under SFRS(I), these financial statements are required to be prepared using accounting policies that comply with SFRS(I) effective as at 31 December 2018. The same accounting policies are applied throughout all periods presented in these financial statements, subject to the mandatory exceptions and optional exemptions under SFRS(I).

The Group's opening balance sheet has been prepared as at 1 January 2017, which is the Group's date of transition to SFRS(I) ("date of transition").

(a) *Optional exemptions applied*

SFRS(I) 1 allows the exemption from application of certain requirements under SFRS(I) on a retrospective basis. The Group has applied the following exemptions in preparing this first set of financial statements in accordance with SFRS(I):

(i) Cumulative translation differences

The Group has elected to set the cumulative translation differences to be zero as at the date of transition to SFRS(I) on 1 January 2017. As a result, translation reserve and retained profit as at 1 January 2017 and 31 December 2017 was increased/reduced by $3,973,000 respectively.

(ii) Short-term exemption on adoption of SFRS(I) 9 Financial Instruments

The Group has elected to apply the short-term exemption to adopt SFRS(I) 9 on 1 January 2018. Accordingly, the requirements of SFRS 39 *Financial Instruments: Recognition and Measurement* are applied to financial instruments up to the financial year ended 31 December 2017. The Group is also exempted from complying with SFRS(I) 7 *Financial Instruments: Disclosures* to the extent that the disclosures required by SFRS(I) 7 related to the items within scope of SRFS(I) 9.

As a result, the requirements under SFRS are applied in place of the requirements under SFRS(I) 7 and SFRS(I) 9 to comparative information about items within scope of SFRS(I) 9.