

NOTES TO THE FINANCIAL STATEMENTS

FOR THE FINANCIAL YEAR ENDED 31 DECEMBER 2016

4. Going concern

The Group incurred loss of S\$120 million for the financial year ended 31 December 2016. As at 31 December 2016, the Group's current liabilities exceeded its current assets by approximately S\$126 million and total liabilities exceeded its total assets by approximately S\$112 million. The Group's cash and bank balances as of 31 December 2016 amounted to approximately S\$433,000 and all of the Group's facilities have been withdrawn.

The Company's current liabilities exceeded its current assets by approximately S\$39 million and total liabilities exceeded its total assets by approximately S\$30 million.

During the financial year, the Group received notices of termination of contracts from certain major customers and received letters of demands from certain creditors and borrowers.

On 28 September 2016, the Company together with two of its significant wholly owned subsidiaries KIPL and EES filed an application with the High Court of the Republic of Singapore to propose schemes of arrangement ("SOA") under S210 of the Companies Act (Cap.50) in connection with the proposed restructuring of the respective debt obligations and liabilities. Through the filing of the Applications, the Group is seeking to effect a consensual restructuring of the debts and liabilities of the Company, KIPL and EES.

The Company's SOA was approved on 28 July 2017 without modification by a majority in number representing more than three-fourths in value of the scheme creditors. However, KIPL's scheme was withdrawn at the creditors' meeting as one of the conditions precedent to the proposed scheme of arrangement could not be fulfilled. Following the withdrawal of the SOA, KIPL has initiated the process of creditor's voluntary liquidation.

Subsequently on 29 September 2017, the revised SOA of EES was also approved without modification by a majority in number representing more than three-fourths in value of the scheme creditors. Following the approval, EES will update the Courts around mid of October 2017 and apply sanction of the same accordingly.

Koastal International Pte Ltd ("KIPL") had on 23 November 2016 received a letter from Phillip Ventures Enterprise Fund 3 Ltd and Venstar Investments II Ltd (collectively, the "PV Investors") demanding for the sum of S\$6.2 million and S\$4.2 million respectively, being the option price payable and the interest accrued thereon under a Put and Call option Deed dated 8 August 2014. The Group and the PV Investors are in discussion with the aim to reach a settlement.

As at date of the end of the financial year, the Group is unable to determine if any further liabilities will be required to be included arising from the various legal claims (Note 37).

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 having regard to the following:

- (i) Upon the successful completion of the Company's and EES's SOA, the Group's financial position will be substantially improved with the debt to equity conversion.
- (ii) The Company is exploring fundraising exercise by way of a placement and/or rights issue to strengthen its cash position.
- (iii) One of the two significant subsidiaries, KIPL, when placed under liquidation, will clear a significant portion of the liabilities of the Group.

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.