

# INDEPENDENT AUDITOR'S REPORT

To the Members of Mencast Holdings Ltd

## Report on the Audit of the Financial Statements

### *Disclaimer of Opinion*

We were engaged to audit the accompanying financial statements of Mencast Holdings Ltd (the "**Company**") and its subsidiary corporations (the "**Group**") which comprise the consolidated balance sheet of the Group and the balance sheet 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 year then ended, and notes to the financial statements, including a summary of significant accounting policies, as set out on page 47 to 124.

We do not express an opinion on the accompanying financial statements of the Group and the balance sheet of the Company. Because of the significance of the matter 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*

As disclosed in Note 2.1 to the financial statements, 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 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 with reference to Note 21, 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).

Although the above conditions indicate the existence of material uncertainties which may cast significant doubts on the Group's and the Company's abilities to continue as going concerns, 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 measures and assumptions:

- (a) On 1st February 2019, the Group had entered into a Debt Restructuring Agreement ("**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.

The ability of the Group and of the Company to continue in operational existence in the foreseeable future and to meet their financial obligations as and when they fall due are dependent upon the successful outcome of the measures and assumptions undertaken as disclosed above which cannot be determined at present. At the date of this report, we are unable to obtain sufficient audit evidence regarding the likely outcome of these measures and assumptions. Therefore, we are not able to form an opinion as to whether the going concern basis of presentation of the accompanying financial statements of the Group and the Company is appropriate.

# INDEPENDENT AUDITOR'S REPORT

To the Members of Mencast Holdings Ltd

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

### *Basis for Disclaimer of Opinion (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.

### *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 (the "Act") and Singapore Financial Reporting Standards International ("SFRS(I)"), 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 the Group's financial statements in accordance with Singapore Standards of Auditing and to issue an auditor's report. However, because of the matter 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 in accordance with 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.

## Report on Other Legal and Regulatory Requirements

In our opinion, except for the matter described in the *Basis for Disclaimer of Opinion* section of our report, 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 director on the audit resulting in this Independent Auditor's report is Low See Lien.

**Nexia TS Public Accounting Corporation**  
Public Accountants and Chartered Accountants

Singapore

3 April 2019