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

1. General information

Hiap Seng Engineering Ltd (under Judicial Management) (the "Company") is listed on the Singapore Exchange and incorporated and domiciled in Singapore. The address of its registered office is 28 Tuas Crescent, Singapore 638719.

The principal activities of the Company consist of the provision of building construction, engineering, procurement, construction and plant maintenance services for oil and gas and energy sectors and, provision of process and industrial plant engineering and consultancy services. The principal activities of the subsidiaries are set out in Note 35 to the financial statements.

On 15 September 2020, the Company and its subsidiary, HS Compression Pte Ltd (In Compulsory Liquidation) ("HSCP"), were placed under Judicial Management. During this period, all powers conferred and duties imposed on the Directors of the Company by the Insolvency, Restructuring and Dissolution Act 2018 or the Companies Act 1967 or by the constitution of the Company, must be exercised and performed by the Judicial Managers and not by the Directors.

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

The consolidated financial statements have been prepared on a going concern basis, which assumes that the Group and the Company will be able to meet its obligations as and when they fall due in the next twelve months from the date of this report.

The Group reported net loss after tax of $5,363,000 for the financial year ended 31 March 2021. As at 31 March 2021 the Group and the Company reported a net current liabilities position of $31,356,000 and $32,007,000 respectively.

<u>Judicial Management</u>

On 15 September 2020, the Company and its subsidiary, HSCP, were placed under judicial management.

The objectives of the judicial management order are to achieve one or more of the following purposes:

(a) Survival of the Company, or the whole or part of its undertaking as a going concern;

(b) The approval under Section 210 of the Companies Act 1967 or Section 71 of the Insolvency, Restructuring and Dissolution Act 2018 of a compromise or arrangement between the Company and any such persons as mentioned in those sections; and/or

(c) A more advantageous realisation of the Company's assets than on winding up.

2. Significant accounting policies (continued)

2.1 Basis of preparation (continued)

Going concern (continued)

Judicial Management (continued)

During the judicial management period, there was a stay on all suits, proceedings, claims etc. against the Company, except with the consent of the Judicial Managers ("JMs") or with the leave of the Court. The unsecured debts and liabilities owing to the principal lender and unsecured claims from creditors (collectively, the "Creditors") prior to 15 September 2020 would be addressed/restructured via a Scheme of Arrangement ("Scheme").

On 7 January 2022, the Company entered into a Conditional Subscription Agreement ("CSA") with a group of investors, in which the investors will subscribe for $8 million ordinary shares (the "Proposed Subscription") and up to $8 million in unlisted and freely transferable share options ("Options Shares") in the Company (collectively, the "Proposed Transaction"). The details of the Proposed Transaction was announced on the same day via SGX-Net.

On 29 August 2022, the Court granted the extension of the judicial management order for the Company till 8 March 2023 to allow the Company to complete the Proposed Transaction with the investors.

On 29 August 2022, the Court had granted an order to sanction the Scheme, which was duly approved by the creditors, allowing the Company to restructure the debts and liabilities of the Company owing to the Creditors prior to 15 September 2020. The aforesaid Scheme is one of the conditions precedent referred to in the CSA, and the approval of the Scheme fulfils one of the anticipated steps to complete the restructuring exercise of the Company.

With reference to the events after the balance sheet date (Note 33), the Directors/JMs and the management believe that the Group is able to generate sufficient cash flows from its operating activities to meet its liabilities upon successful completion of the Proposed Transaction and Scheme of Arrangement, and execution of the restructuring deed (collectively, the "Restructuring Exercise"). In addition, the Group also plan to undertake a rights issue exercise to raise up to $3.3 million upon completion of the Proposed Transaction. In this respect, the Group believes that its liabilities and working capital needs can be met as and when they fall due in the next 12 months from the date of this report.

Borrowings from the Creditors

The Group has classified the outstanding borrowings amounting to $25,860,000 as at 31 March 2021, as "Current Liabilities" as the Company had breached certain covenant requirements and the repayment of the borrowings are on a short term basis.

On 6 September 2021, a Court Order was obtained by the principal lender to enforce their mortgage over one of the Company's properties, and the proceeds arising from the mortgage sale have been applied towards the borrowings owing to the principal lender.

As at the date of this report, the Company also has outstanding amounts due to unsecured creditors prior to 15 September 2020 of approximately $19,646,000.

On 18 August 2022, the Company entered into a restructuring deed with the principal lender, and the investors. The restructuring deed prescribes how the Company's liabilities due to the principal lender will be discharged or provided for. Upon successful completion of the Proposed Transaction, the Company will utilise the proceeds from the investments by the investors for the partial settlement of the principal amounts and interests under the loans owing to the principal lender prior to 15 September 2020.

2. Significant accounting policies (continued)

2.1 Basis of preparation (continued)

Going concern (continued)

Borrowings from the Creditors (continued)

The remaining unsecured amounts of the principal lender will be restructured together with the other unsecured creditors who had filed Proofs of Debt (together the "Scheme Debt") via the Scheme, which was sanctioned on 29 August 2022 by the Court.

Under the Scheme, the Scheme Debt will be partially settled by way of a cash distribution and issuance of settlement shares. The remaining Scheme Debt shall be irrevocably and forever released, discharged and extinguished upon the successful completion of the Proposed Transaction and Scheme implementation post-restructuring.

Cash flows from operating activities

The Management has taken the following steps and measures to sustain and improve the Group's operational performance and financial position:

- Continue to source for upcoming shutdown and maintenance contracts;
- Implement cost containment measures;
- Renew relationships with past customers and the provision of comprehensive scale of services to clients, including supporting their green initiatives;
- Close down/divest the Company's non-core investments to reduce overheads; and
- Explore available options in utilising any part of the premises/assets for value.

On the above basis, the financial statements for the financial year ended 31 March 2021 is prepared on a going concern basis.

Notwithstanding the Directors/JM and management's belief that the use of going concern assumption in the preparation of the financial statements is appropriate, there are material uncertainties which may cast significant doubt about the ability of the Group and the Company to continue as going concerns as the completion of the Proposed Transaction is subjected to a number of conditions precedent to be fulfilled, including regulatory bodies' and shareholders' approvals.

If for any reason the Group and the Company are unable to continue as going concerns, this could impact the Company's ability to realise its assets at book values and adjustments may have to be made to provide for any potential/future losses and liabilities which might arise.

2.2 Interpretations and amendments to published standards effective in 2021

On 1 April 2021, the Group adopted the new or amended SFRS(I) and Interpretations to SFRS(I) ("INT SFRS(I)") that are mandatory for application for the financial year. Changes to the Group's accounting policies have been made as required, in accordance with the transitional provisions in the respective SFRS(I) and INT SFRS(I).

The adoption of these new or amended SFRS(I) and INT SFRS(I) did not result in substantial changes to the accounting policies of the Group and the Company and had no material effect on the amounts reported for the current or prior financial years.