

The below is an extract from the “Notes to Financial Statements” of Eurotronic Group Ltd – Annual Report 2013

2. Significant accounting policies

2.1 Basis of preparation

These financial statements have been prepared in accordance with Singapore Financial Reporting Standards (“FRS”) under the historical cost convention, except as disclosed in the accounting policies below.

Going concern

As at 31 December 2013, the Group has current borrowings of approximately US\$33,753,000 due within 12 months from the balance sheet date and cash and cash equivalents of approximately US\$6,261,000. The Group has incurred a net loss of US\$11,467,000 for the financial year ended 31 December 2013 and as at that date the Group's current liabilities exceeded its current assets by US\$26,458,000. In addition, as disclosed in Note 21, a subsidiary of the Group has breached certain financial covenants relating to credit facilities amounting to approximately US\$14,539,000. The breach of these financial covenants is an event of default and may result in the banks exercising their rights under the credit facility agreement to recall the credit facilities and to demand immediate repayment. These conditions indicate the existence of a material uncertainty that casts significant doubt on the ability of the Group to operate as a going concern.

Notwithstanding with the above, the financial statements have been prepared on a going concern basis upon considering the following:

- Expected incoming fund from potential disposal of land and factory in Wujiang, People's Republic of China following the Compulsory Acquisition notice from Wujiang Economic and Technological Development Zone.
- The directors have evaluated all the relevant facts available to them and are of the opinion that there are good track records or relationships with banks which enhance the Group's ability to continue with the current credit facilities to enable the Group to meet its financial obligations as and when they fall due for the foreseeable future.
- The controlling shareholders of the Company, who are also the directors, have provided personal undertakings to provide continuing financial support to the Group.
- Expected customer orders and expected positive operating activities of the Group in the next financial year as the Group expected stronger customer support from product mix transitions.

Accordingly, the financial statements have been prepared on a going concern basis.

The validity of the going concern assumption on which these financial statements are prepared depends on the continuing favourable outcome of negotiation with Wujiang Economic and Technological Development Zone and continuing financial support from the controlling shareholders and existing banks as well as continuing favourable outcome of operating activities and customer orders. If the Group is unable to continue in operational existence for the foreseeable future, 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 date. In addition, the Group may have to provide for further liabilities that might arise. The effect of these adjustments has not been reflected in the financial statements.

The preparation of financial statements in conformity with FRS 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.