Extract:

2 SIGNIFICANT ACCOUNTING POLICIES

2.1 Basis of preparation

(c) Going concern assumption

The financial statements of the Group are prepared on a going concern basis which assumes continuity of normal business activities and the realisation of assets and discharge of liabilities in the normal course of business.

The Group reported a net loss of $15,031,000 and has net operating cash outflows of $417,000 during the financial year ended 31 December 2014 and as of that date, the Group's accumulated losses amounted to $42,587,000. These factors indicate the existence of a material uncertainty which may cast significant doubt about the Group's and the Company's ability to continue as a going concern. Nevertheless, the directors are of the view that it is appropriate for the financial statements of the Group and of the Company to be prepared on a going concern basis as:

(i) As at 31 December 2014, the Group has net current assets of approximately $5,102,000 including cash and cash equivalent of $3,100,000. The review of the cash flow forecasts of the Group and of the Company for the financial year ending 31 December 2015 showed that the Group and the Company has adequate resources and will be able to generate sufficient cash flows from its operations in the next twelve months to meet their financial obligations as and when they fall due;

(ii) To strengthen the financial position and capital base of the Group, the Company announced via the SGXNET on 1 April 2015 that it is proposing a renounceable non-underwritten rights cum warrants issue (the "**Rights cum Warrants Issue**") which is subject to shareholders' approval. The Company is expected to raise net proceeds of approximately $3,700,000 from the Rights cum Warrants Issue which is scheduled to be received by the Company in the second half of the financial year ending 31 December 2015 (please refer to Note 34B to the financial statements for further details on the Rights cum Warrants Issue); and

(iii) Other measures may include fund raising, acquisitions of suitable businesses to strengthen the Group's existing business and earnings base as well as restructuring (including but not limited to acquisitions and disposals) of existing businesses or assets within the Group.

ANNICA HOLDINGS LIMITED
NOTES TO THE FINANCIAL STATEMENTS
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Extract:

6 TRADE AND OTHER RECEIVABLES

	Group		Company	
	2014	**2013**	**2014**	**2013**
	$'000	**$'000**	**$'000**	**$'000**
Current:				
Trade receivables:				
Non-related parties	7,648	11,432	-	-
Less: allowance for impairment	(1,727)	(452)	-	-
	5,921	10,980	-	-
Other receivables:				
- Subsidiaries				
- Management fee receivable	-	-	875	585
- Non-related parties	623	799	5	59
	623	799	880	644
Loan to a third party	315	617	-	-
Allowance for impairment	(277)	-	-	-
	38	617	-	-
Related parties	24	-	-	-
Due from customers on construction contracts	2,666	3,406	-	-
Other current assets (Note 7)	1,375	1,785	1,920	5,221
	10,647	17,587	2,800	5,865
Non-current:				
Trade receivables:				
Non-related party	112	130	-	-
	10,759	17,717	2,800	5,865

Included in the trade and other receivables is an amount owing from a customer, FTJ Bio Power Sdn. Bhd. ("**FJP**"), incorporated in Malaysia, to one of the Company's subsidiaries, Industrial Power Pte Ltd ("**Industrial Power**"), of $2,863,000 (2013: $7,683.000). The amount comprises trade receivables of $471,000 (2013: $4,194,000) and billable retention work-in-progress of $3,554,000 (2013: $3,489,000) less provision for allowance for doubtful debt of $1,162,000 (2013: Nil).

As disclosed in Note 34A to the financial statements, the matters relating to the notice of termination letter received from FTJ by Industrial Power are still at its preliminary stage and that if arbitration proceedings are to take place, it is likely that it would be about 12 to 24 months from commencement before an award is given.

ANNICA HOLDINGS LIMITED
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Extract:

6 TRADE AND OTHER RECEIVABLES (CONT'D)

Gross amount due from/to on construction contracts:

	Group		Company	
	2014	**2013**	**2014**	**2013**
	$'000	**$'000**	**$'000**	**$'000**
Construction work-in-progress				
At beginning of financial year	1,947	1,904	-	-
Contract costs incurred	17,500	24,066	-	-
Contract expenses recognised in profit or loss	(17,400)	(24,023)	-	-
At end of financial year	2,047	1,947	-	-
Aggregate costs incurred	65,776	47,299	-	-
Add: Attributable profits	6,683	6,363	-	-
	74,506	55,609	-	-
Less: Progress billings	(72,459)	(53,661)	-	-
	2,047	1,948	-	-
Presented as:				
Due from customers on construction contracts	131	3,406	-	-
Equipment for upcoming project	2,535	-	-	-
Due to customers on construction contracts (Note 16)	(619)	(1,458)	-	-
	2,047	1,948	-	-
Advance received on construction contracts (Note 16)	2,180	2,246	-	-

Included in the amount due from customers on construction contracts is an amount of $2,535,000 (2013: Nil) representing the cost of equipment ordered for a subsidiary's construction project that has stalled unexpectedly. The customer was unable to secure project financing as required under the construction contract between a subsidiary and the customer. The equipment is earmarked to be used for the subsidiary's future projects.

Extract:

6 TRADE AND OTHER RECEIVABLES (CONT'D)

The movement in the allowance for impairment of current trade receivables is as follows:

	Group		Company	
	2014 $'000	**2013 $'000**	**2014 $'000**	**2013 $'000**
At beginning of financial year	452	449	-	-
Translation differences	(3)	3	-	-
Charge during the financial year	1,278	-	-	-
At end of financial year	1,727	452	-	-

<u>Trade receivables</u>

Trade receivables are non-interest bearing and are generally on 30 to 90 days' terms. They are recognised at their original invoice amounts which represent their fair values on initial recognition.

<u>Other receivables</u>

Included in other receivables of the Group is withholding tax paid by a subsidiary to Inland Revenue Board of Malaysia ("IRB") amounting to $574,000 (2013: $548,000). The withholding tax arose in relation to the construction service for a plant located in Malaysia which will only be finalised by IRB at end of this project; and is subject to compliance with the tax regulations and agreement with the Section 107A Income Tax Act 1967.

<u>Loan to a third party</u>

Loan to a third party by a subsidiary was unsecured, interest-free and repayable on demand.

<u>Fair value of non-current trade receivable</u>

The discounted value of non-current trade receivable amounting to $112,000 (2013: $130,000) is computed based on cash flows discounted at market borrowing rate of 5.5% (2013: 5.5%).

<u>Loan to a related party</u>

Loan to a related party by a subsidiary was unsecured, interest at 6% per annum and repayable on demand.

Extract:

33 OTHER MATTERS

As announced by the Company via the SGXNET on 4 April 2014 and 29 April 2014, the Company and certain of its subsidiaries, Industrial Power Technology Pte Ltd, P.J. Services Pte Ltd and Nu Haven Incorporated, were served with notices to provide certain information and documents for the period from 1 January 2011 to 3 April 2014 to the Commercial Affairs Department (the "**CAD**") in relation to its investigations into an offence under the Securities and Futures Act (Cap. 289). Since then, the Company has been cooperating fully with CAD in its investigations. On 20 January 2015, the CAD confirmed to the Company's external auditor that its investigations are still on-going. The CAD has not provided the Company with any further details or updates of its investigations.

The Company's Chairman and Executive Director and an Independent and Non-Executive Director are assisting the CAD with its investigations.

The business and day-to-day operations of the Group are not affected by the investigations and have continued as normal. However, the ongoing investigations have cast a negative outlook on the Company from the perspective of the financial institutions which are highly risk averse and pose limitations to the Group's growth and expansion plans.

ANNICA HOLDINGS LIMITED
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Extract:

34 SUBSEQUENT EVENTS

A. Receipt of a notice of termination of a contract by a subsidiary

On 27 March 2015, the Company announced via the SGXNET that one of its subsidiaries, Industrial Power Technology Pte. Ltd. (‘**Industrial Power**”), has received a Notice of Termination dated 26 March 2015 (“**Termination Notice**”) in respect of the Engineering, Procurement, Construction & Commissioning Turnkey Contract (“**EPCC Contract**”) between Industrial Power and FTJ Bio Power Sdn. Bhd. (“**FTJ**”), incorporated in Malaysia, on grounds of alleged breach and default by Industrial Power of certain terms under the EPCC Contract (“**FTJ Claims**”).

Industrial Power has sought legal advice in relation to its position on the validity and merits of the Termination Notice and FTJ Claims and has been advised by its solicitors who opined that Industrial Power’s position has merits on the FTJ Claims, the Termination Notice and liquidated damages invoices issued by FTJ. Industrial Power has been directed to take all appropriate steps to resolve the matter via amicable negotiation and if necessary, initiate arbitration proceedings at the Kuala Lumpur Regional Centre for Arbitration as provided for in the EPCC Contract. The arbitration proceeding is likely to take about 12 to 24 months from commencement before an award is given.

The EPCC Contract is for the engineering, procurement, construction and commissioning of a Biomass Power Plant (“**Power Plant**”) in Malaysia. As of the date of this report, Industrial Power has completed the engineering, procurement and construction of the Power Plant which Industrial Power has received approximately $29,300,000 (equivalent to RM78,300,000 at the current prevailing exchange rate), being approximately 90% of the EPCC Contract’s original contract sum. As at 31 December 2014, according to the terms of the EPCC Contract, the exposure of the maximum liquidated damages is approximately $6,800,000 (equivalent to RM18,000,000 at the current prevailing exchange rate).

On the basis that (i) the solicitors opined that Industrial Power’s position has merits on the FTJ Claims, the Termination Notice and liquidated damages invoices issued by FTJ; (ii) the matter is still at its preliminary stage and any awards, arising from arbitration proceedings will only be known in the next 12 to 24 months from the date of this report; and (iii) based on the foregoing factors, the outcome of the Termination Notice and FTJ Claims cannot be reliably estimated and the obligation of the liquidated damages are subject to those outcome, the directors are of the opinion that no further provision on the amount owing from FTJ of $2,863,000 (Note 6) and no provision for liquidated damages invoices issued by FTJ amounting to approximately $5,050,000 are necessary as at 31 December 2014.

Extract:

34 SUBSEQUENT EVENTS (Cont'd)

B. Proposed rights cum warrants shares issue

As disclosed in Note 2.1(c)(ii) to the financial statements, the Company has announced on 1 April 2015 via the SGXNET that it is proposing to undertake a Rights cum Warrants Issue on the basis of one rights share ("**Rights Share**") for every one existing ordinary share in the capital of the Company at an issue price of $0.003 for each Rights Share. Further, every Rights Share subscribed is attached with a free detachable warrant ("**Warrants**"), with each Warrant carrying the right to subscribe for one (1) new ordinary share in the capital of the Company (the "**Warrant Share**") at the exercise price of $0.005 per Warrant Share. The Warrants may be exercised at any time over a period of 36 months from its date of issuance. The Rights cum Warrants Issue is subject to shareholders' approval. The fund raising exercise is expected to raise net proceeds of $3,700,000 from the issuance of the Rights Shares which is scheduled to be received by the Company in the second half of the financial year ending 31 December 2015. The additional proceeds arising from the exercise of all of the Warrants is approximately $6,600,000.