

SURFACE MOUNT TECHNOLOGY (HOLDINGS) LIMITED

Company Registration No.: 29080
(Incorporated in Bermuda with limited liability)

NOTE 2 TO THE FINANCIAL STATEMENTS

For the financial year ended 31 March 2014

2. BASIS OF PREPARATION

As at 31 March 2014, the Group had net current liabilities and net liabilities of approximately HK\$199,862,000 and HK\$63,861,000, respectively. In addition, the Company has received a delisting notification and is proposing an offer of Share Buyback.

The Group has implemented various measures to improve its financial position which include, but are not limited to, the following:

- (i) Since the previous financial year, the Group has exited from low margin product lines and is now focused on manufacturing and selling higher margin products, such as health care devices, industrial controls, retail technology and security products. As a result, the Group has generated operating profits for the years ended 31 March 2014 and 2013;
- (ii) The Group has continued to explore possible ways of financing to strengthen its financial position. During the year ended 31 March 2014, the Group has successfully renewed a bank loan of RMB60 million with a PRC bank for a period of twelve months to 23 September 2014 and renewed and increased the loan from Tsinghua Redbud Holding (HK) Limited ("Redbud HK") which has a key management personnel in common with Tsinghua Redbud Holding Limited, the ultimate holding company of the Company, from HK\$47.1 million as at 31 March 2013 to HK\$66.9 million as at 31 March 2014.

The Group has been in discussions with Redbud HK and no matters have been drawn to its attention to suggest that the renewal of loan arrangement for the ensuing twelve months will not be made available. In addition, management believes that the bank loan and the loan arrangement from Redbud HK will continue to be made available to the Group for the foreseeable future; and

- (iii) The ultimate holding company has agreed to provide adequate funds for the Group and the Company to meet their liabilities as and when they fall due for the foreseeable future.

Management has prepared business plans and cash flow forecasts of the Group for the financial year ending 31 March 2015 based on (i) the latest available interim financial information; (ii) the discussions with major customers about the expected orders, which however, do not represent firm or committed orders; (iii) new facilities available for the Group. Management is of the view that the business plans and the cash flow forecasts are achievable. According to its judgment, management believes that the Group should be able to operate as a going concern on the assumption that (i) the bank will not demand the immediate repayment of the bank loan, (ii) the bank will renew part of the short-term bank loan upon expiry and (iii) new facilities will be obtained from PRC banks.

The combination of the above circumstances represents multiple material uncertainties that may cast significant doubt on the Group and Company's ability to continue as a going concern and, therefore, that it may be unable to realise its assets and discharge its liabilities in the normal course of business. Nevertheless, after considering the measures taken and the uncertainties described above, management believes that the Group has adequate resources to continue in operational existence for the foreseeable future. For these reasons, management considers that it is appropriate to adopt the going concern assumption in preparing the accompanying financial statements.

Accordingly, the accompanying financial statements did not include any adjustments relating to the realisation and classification of asset and liability amounts that may be necessary if the Group were unable to continue as a going concern. Should the going concern assumption be inappropriate, adjustments may have to be made to (i) reflect the situation that assets may need to be realised other than their carrying amounts; (ii) provide for further liabilities that may arise; and (iii) reclassify non-current assets as current assets. No adjustments have been made in the accompanying financial statements in respect of these.