

The below is an extract from the Notes to Financial Statements” of Europtronic Group Ltd – Annual Report 2015.

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

The Group incurred net loss amounting to US\$5,753,000 (2014: US\$8,357,000) and experienced a net cash outflow of US\$2,645,000 (2014: US\$218,000) during the financial year ended 31 December 2015. In addition, as at 31 December 2015, the Group’s current liabilities exceeded its current assets by US\$32,076,000 (2014: US\$32,050,000), and its cash and cash equivalents amounted to US\$582,000 (2014: US\$3,227,000). Furthermore, the Company has net liabilities of US\$4,250,000 (2014: US\$4,973,000) at that date. These indicate the existence of material uncertainties that cast significant doubt about the ability of the Group and of the Company to operate as going concern.

Notwithstanding the above, the financial statements have been prepared on a going concern basis as management is confident of obtaining funds for operational needs through various initiatives including the following:

- (i) Sale of a subsidiary, Europtronic (Suzhou) Co., Ltd, to Nantong Jianghai Power Electronics Co Ltd (“the Purchaser”)

On 25 January 2016, the Company entered into a Memorandum of Understanding (“MOU”) with the Purchaser, allowing the Purchaser the option to purchase all the company’s of shares in Europtronic (Suzhou) Co., Ltd, excluding certain assets, for consideration based on approximately 1.5 times the net tangible asset value of Europtronic (Suzhou) Co., Ltd. The Purchaser will inform the Company before 25 May 2016 as to whether it is proceeding with its proposed purchase after reviewing the results of the due diligence which is currently in progress. The completion of the proposed sale shall take place by 25 July 2016.

As part of the MOU, the Purchaser has paid the Company a refundable deposit of RMB20 million. As a result of the arrangement, the Company has pledged 10% of its equity interest of Europtronic (Suzhou) Co., Ltd in favour of the Purchaser. Management is of the view that the proposed sale is probable and the proceeds from the sale will enable the Group and the Company to continue as going concern.

(ii) Sale of the land and building in Suzhou to the local government

Management is in discussion with the local government in Suzhou to sell the land and building owned by Europtronic (Suzhou) Co., Ltd. To facilitate the sale, management has engaged an external valuer to determine the value of the land and building. Management is confident that the proposed sale will take place and a reasonable price will be obtained.

(iii) Continuing financial support from bankers and other lenders

As of 31 December 2015, the Group has external bank borrowings of US\$17,309,000 (2014: US\$24,406,000), third party borrowings of US\$1,909,000 (2014: US\$1,990,000) and shareholder loans of US\$10,249,000 (2014: US\$6,911,000). Although most of the external borrowings are current, management is of the view that bankers and other lenders will continue to provide support to the Group by not recalling the borrowings in view of the Group's good past payment records and relationships.

The validity of the going concern assumption on which these financial statements have been prepared depends on the favourable outcome of the above initiatives. If the Group and the Company are unable to obtain the necessary funding to continue in operational existence for the foreseeable future, several adjustments may have to be made to the accompanying financial statements 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 addition, the Group and the Company may have to provide for further liabilities that might arise. The accompanying financial statements do not reflect the effect of these adjustments.

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.

Interpretations and amendments to published standards effective in 2015

On 1 January 2015, the Group adopted the new or amended FRS and Interpretations of FRS ("INT FRS") 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 FRS and INT FRS.

The adoption of these new or amended FRS and INT FRS 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.