



Smartflex Holdings Ltd.
(Company Registration No. 201003501R)

SMARTFLEX HOLDINGS LTD. ANNUAL REPORT 2010



**& INNOVATIONS
INSIGHTS**
annual report 2010



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*This announcement and its contents have been reviewed by the Company's sponsor, CIMB Bank Berhad, Singapore Branch ("**Sponsor**"), for compliance with the relevant rules of the Singapore Exchange Securities Trading Limited (the "**SGX-ST**") this being the SGX-ST Listing Manual Section B: Rules of the Catalyst ("**Catalist Rules**"). The Sponsor has not independently verified the contents of this announcement.*

This announcement has not been examined or approved by the SGX-ST. The Sponsor and the SGX-ST assumes no responsibility for the contents of this announcement, including the correctness of any of the statements or opinions made or reports contained in this announcement.

The contact person for the Sponsor is Mr. Tony Toh, Senior Vice President, Corporate Finance, CIMB Bank Berhad, Singapore Branch, 50 Raffles Place, #09-01 Singapore Land Tower, Singapore 048623, telephone (65) 6337-5115.

Mission & Vision

Vision

To be the leader in Smartcard IC Module Assembly and Testing Services, from chip packaging to loading of operating system.

Mission

We are committed to strive for continuous improvement to bring better services and benefits to our customers





Corporate Profile

We are a comprehensive provider of IC module assembly and testing services for contact and dual interface smart cards, which are mainly used in the banking and finance, pay TV, telecommunications, and transportation industries. Value added services which we provide also include the loading of software or customer specific data into smart card IC modules.

Encompassing an area of approximately 1,245 sq m, our manufacturing facility in Singapore houses equipment, with wafer mapping and dicing, die attach, wire bonding, encapsulation, and OS loading, and testing and inspection capabilities. With our full range of services, we are able to provide complete and innovative manufacturing solutions to our customers from Southeast Asia, Commonwealth of Independent States, Europe, India, PRC, South America and the United States.

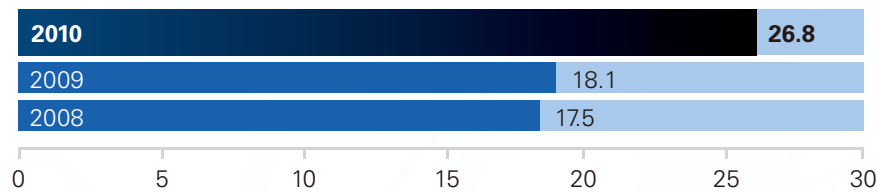
We are ISO 9001:2000 and ISO 14001:2004 certified. We were also awarded the CQM label certification from MasterCard International, as well as the Enterprise 50 Award, which is in recognition of the Group's contributions to the economic development of Singapore.



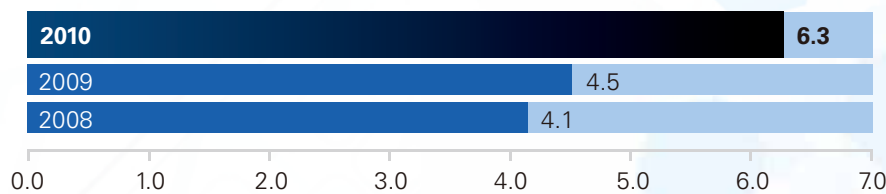
Financial Highlights

	2010	2009	2008
	US\$ million	US\$ million	US\$ million
Revenue	26.8	18.1	17.5
Gross profit	6.3	4.5	4.1
Profit after tax	2.1	1.9	1.8
Shareholders' Funds	10.6	7.2	5.3

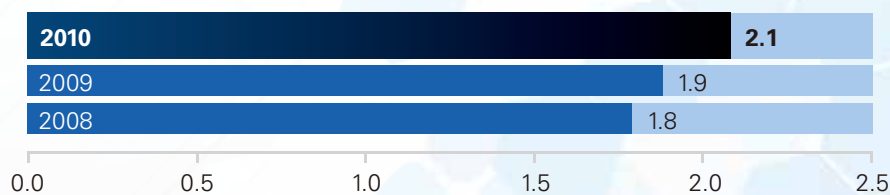
Revenue US\$ million



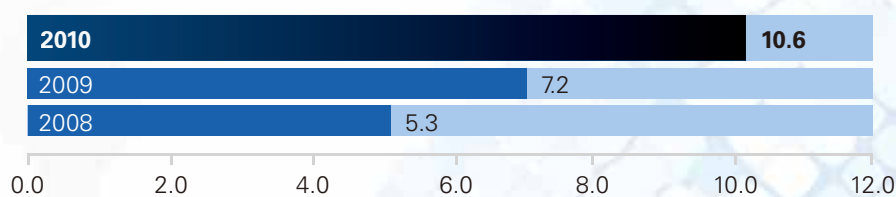
Gross profit US\$ million



Profit after tax US\$ million



Shareholders' Funds US\$ million





Chairman's Statement



Dear Shareholders,

On behalf of the Board of Directors, I am pleased to present to you the annual report of Smartflex Holdings Limited ("the Group") for the financial year ended 31 December 2010 ("FY2010").

Overview

Building upon the momentum that began from the second half of FY2009, FY2010 witnessed a robust global economic recovery as the worldwide concerted efforts to stimulate the economy took effect. The Group's revenue, which has been growing even during the difficult years of FY2008 and FY2009, surged 48.2% to US\$26.8 million in FY2010 as demand for telecommunication and banking products picked up. As such, the Group's net profit after tax grew by 7% to hit US\$2.06 million in FY2010. If we have excluded the one time IPO expenses of approximately US\$0.63 million, our net profit after tax would have grown by 39.7% to US\$2.69 million. Both revenue and profit figures are record highs for the Group since our inception.

According to the Eurosmart report in December 2010, the total shipment volume for the whole of 2010 is estimated to be 5.32 billion units. Our shipment volume of 533





million units would therefore account for approximately 10% of global market share. This is an improvement from our global market share of 7.2% in FY2009.

This strong performance can be attributed to our competitive strengths which have differentiated us from our competitors. Firstly, we provide a full range of services for assembly and testing of smart card IC modules. This allows us to offer to customers worldwide comprehensive manufacturing solutions. Secondly, our sound engineering and software expertise enables our customers to collaborate with us to develop manufacturing processes for their new products.

Thirdly, our dedication towards customer-centric services ensures that we understand our customers' business, so as to provide customer support services in a responsive and timely manner. Fourthly, we have an experienced management with an aggregate of over 35 years of experience in the smart card and semiconductor industries.

Last but not least, we have a well-diversified and strong customer base of multinational corporations including Oberthur Technologies, Eastcom Peace Smart Card and STMicroelectronics.

Significant Developments during the Year

As we grow from strength to strength, we recognise the importance of tapping on the capital market to bring the Group to another level. Hence, with CIMB as our sponsor, we carried out an Initial Public Offering ("IPO") of our shares and the Group was officially admitted to the Catalist on 19 July 2010. This is a significant milestone for us as we transit from a private company to a public listed entity.

We raised net proceeds of S\$1.76 million from the IPO exercise of which approximately S\$1.5 million was used to retire some loans relating to our purchase of new equipment and machinery, and approximately S\$0.26 million was used to bolster our working capital in anticipation of higher business volume. With an enhanced financial position, we are well poised to move on to our next stage of growth.

To support our expansion plans, we also broadened our management base during the year. We hired an Operations manager, a Human Resource manager and a Quality Assurance manager. We believe these additions will ensure that we continue to improve our operational efficiency and stay committed in supplying our customers with products of the highest quality.

Outlook & Strategy

Moving forward, we expect growth to slow down. According to the Eurosmart report, our industry's growth is forecast to be 13% in 2011. This is a pullback from the 18% growth seen in 2010. Competition is also expected to be keen and competitive pricing may erode margins further.

To mitigate these trends, we have devised a set of strategies. We intend to focus on the High Security segment as we believe that demand for such products will grow exponentially in time to come. Based on Eurosmart, pilot trials of mobile payment and mobile mass transit services will materialise in mass deployment over the next few years. The Group will then be well-positioned to take advantage of the growth in demand for high security smart cards.

Furthermore, we intend to broaden our range of manufacturing services by collaborating with some of our customers and/or partners to develop manufacturing solutions for higher end products such as dual interface. As few manufacturers have the capability to provide such solutions for these higher end products, we expect to derive higher margins from these as well.

Additionally, we will be stepping up on our marketing efforts in order to retain our existing customers, as well as cultivate new ones in unchartered geographical markets. We will also keep an open mind on business opportunities and/or strategic alliances that can further the Group's range of products, geographical reach and technological capabilities.

Dividend

In line with our positive results and to show our appreciation to our shareholders for their support, the Board of Directors has proposed a first and final dividend of S\$0.01 per ordinary share for FY2010.

Appreciation and Acknowledgements

Finally, on behalf of the Board of Directors, I would like to express my appreciation to the management team and staff for their dedication in making Smartflex a success. I would also like to take this opportunity to thank all shareholders, business associates, partners, suppliers and customers for their generous support over the years. Lastly, I would also like to express my gratitude to the Board members for the guidance they have given to the Group as we embark on a new lap of growth.



Directors Profile



Chan Kum Kit, Eric Ng, Tan Tong Guan, Tan Geok Moey, Teo Zee Vee



Tan Tong Guan

Co-founder and Executive Chairman

Tan Tong Guan, aged 47, co-founder and Executive Chairman, was appointed to the Board on 17 February 2010. He is responsible for providing the corporate direction and business strategy for our Group. Mr Tan brings over 20 years of experience in business strategy, having been an executive director of our holding company and controlling shareholder, TGBPL, from February 1991 to the present. TGBPL was formed in 1967 by Mr Tan family and has grown from a trading company to an investment holding company that has businesses, ranging from manufacturing, trading, property investments and investment holding. Mr Tan is presently an independent director and chairman of the audit committee of Sing Investments and Finance Limited, he is also a director of TEC Developments Limited, Regent Oil & Foodstuffs (1990) Pte Ltd, Teck Gee Investments (International) Pte Ltd, Gui Yang Teak Gee Zinc Co. Ltd, TGB Properties Pte Ltd, Golden Vale Sdn Bhd, Fu Guan Construction (S) Sdn Bhd, Perusahaan TGB Sdn Bhd, Centrepoint Tiara (M) Sdn Bhd, Golden Vale Realty Sdn Bhd, Meyer Developments Pte Ltd, Cosmos Investments Pte Ltd, Tan Gee Beng (Hong Kong) Limited, Suzhou Hongchang Packing Materials Co., Ltd and TGB Properties (NZ) Pte Ltd. Mr Tan graduated from the National University of Singapore with a Bachelor Degree in Accountancy and is a non-practising member (FCPA) of the Institute of Certified Public Accountants of Singapore. Mr Tan is the brother of Ms Tan Geok Moey (our Non-Executive Director).

Eric Ng

co-founder, CEO and Executive Director

Eric Ng, aged 40, co-founder, CEO and Executive Director, was appointed to the Board on 17 February 2010. Dr Ng is responsible for managing the sales, business development and operations of our Group. Dr Ng brings with him over 10 years of experience in the smart card and semiconductor industries. Dr Ng graduated from Glasgow University in Scotland with a First Class Honours Degree in Engineering and a Doctor of Philosophy (Ph.D.) in Mechanical Engineering.

Tan Geok Moey

Non-Executive Director

Tan Geok Moey, aged 50, Non-Executive Director, was appointed to the Board on 15 March 2010. Ms Tan is currently a director of TGBPL, the holding company and controlling shareholder of our Group, a position she held since June 1988, where she is responsible for the administration of TGBPL. She is also a director of Regent Oil & Foodstuffs (1990) Pte. Ltd, TGB Properties Pte Ltd, Cosmos Investment Pte Ltd, Tan Gee Beng (Hong Kong) Limited and TGB Properties (NZ) Pte Ltd Ms Tan holds a Bachelor of Accountancy from the National University of Singapore.

Chan Kum Kit

Non-Executive and Independent Director

Chan Kum Kit, aged 59, Independent Director, was appointed to the Board on 15 March 2010. He is also the chairman of the Audit Committee. He is currently co-founder and managing partner of Verity Partners, a public accounting practice. Mr Chan brings over 25 years of experience as an accountant. Mr Chan holds various directorships and is an independent director and chairman of the Audit committees and a member of the Nominating and Remuneration committees of Sing Holdings Limited, he is also a director of K K Chan Pte Ltd and F C Solution Pte Ltd. Mr Chan holds a Bachelor of Accountancy from the University of Singapore and is a Fellow Certified Public Accountant with the Institute of Certified Public Accountants in Singapore.

Teo Zee Vee

Non-Executive and Independent Director

Teo Zee Vee, aged 42, Independent Director, was appointed to the Board on 15 March 2010. He is also chairman of both the Nominating and Remuneration Committee. Mr Teo brings with him over 15 years of experience in the smart card industry. Mr Teo holds a Bachelor of Engineering (Electrical) from the National University of Singapore, obtained in 1993.

Operation Review



Financial Performance

For the financial year ended 31 December 2010, the Group recorded revenue totaling US\$26.8 million, an increase of 48.2% over the previous year's revenue of US\$18.1 million. This is primarily due to a rise in demand for telecommunication and banking products arising from the global economic recovery seen in FY2010.

Due to the price erosion of system module orders, gross profit rose by a smaller extent or 40% from US\$4.5 million in FY2009 to US\$6.3 million in FY2010. After taking into account higher administrative expenses incurred during the year, net profit after tax rose by 7% from US\$1.9 million in FY2009 to US\$2.06 million in FY2010. The net profit after tax would have been US\$2.69 million if we were to exclude the one time IPO expenses of approximately US\$0.63 million. Both revenue and net profit after tax are record highs for the Group.

In terms of the Group's balance sheet, plant and equipment net of depreciation rose by approximately US\$1.0 million from US\$7.7 million in FY2009 to US\$8.7 million in FY2010. Inventories also doubled from US\$618k in FY 2009 to US\$1.25 million in FY2010. This is in line with the Group's expansion in production capacity and higher anticipated sales volume in the coming months.

The Group's short term loans and borrowings decreased by 21.2% from US\$3.4 million in FY2009 to US\$2.68 million in FY2010 due to the retirement of certain term

loans after the Group raised additional capital from its IPO exercise in July 2010.

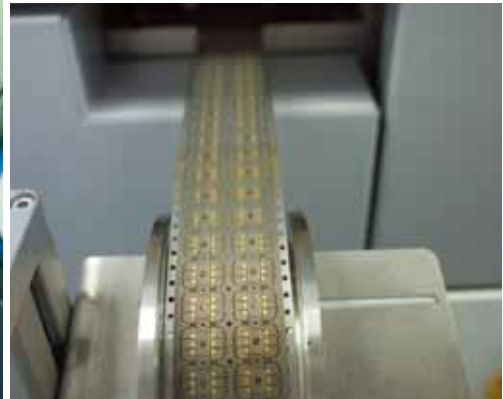
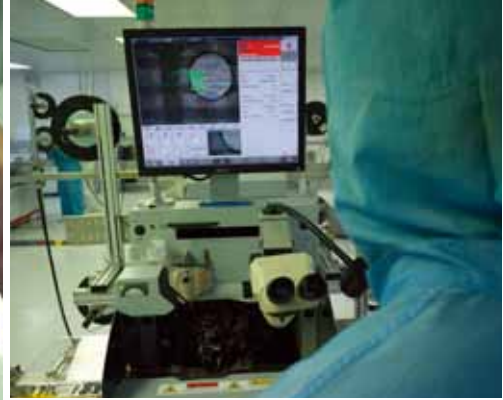
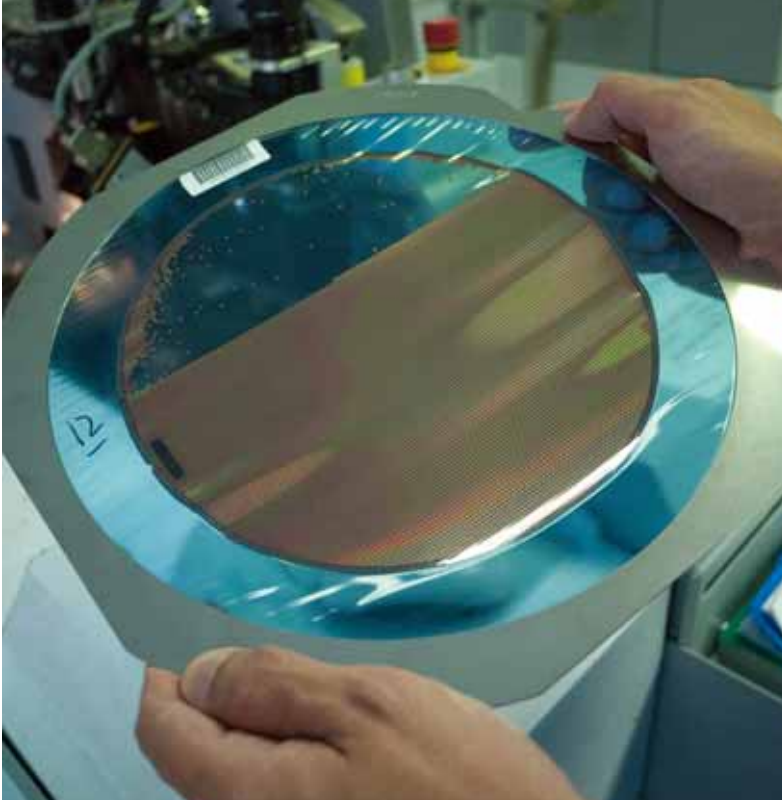
With regard to the Group's cash flow, the Group continued to generate positive cash flow of US\$2.75 million from its operating activities. After taking account the Group's investment in new plant and equipment and proceeds from the IPO exercise, the Group's cash position as at 31 December 2010 was US\$2.85 million or 49.5% higher compared to its cash position of US\$1.9 million in FY2009.

Segmental Performance

With regard to the Group's geographical markets by segment, South Asia remains the Group's largest segment, accounting for 50% of the Group's revenue. It is also the Group's fastest growing segment, with revenue growing by 46% from US\$8.26 million in FY2009 to US\$13.6 million in FY2010. East Asia accounts for 29% or US\$7.7 million, while Europe accounts for 20% or US\$5.4 million of the Group's revenue. Management foresees that South Asia will remain the Group's key driver of growth and will continue to be the Group's focus.

Operating Highlights

Arising from the strong demand for the Group's products, the Group's production facilities were running at almost maximum utilization throughout the whole year. Going forward, management expects average utilization of production capacity to remain at more than 90% as business volume is expected to expand further.



During the year, an Operations manager, a Human Resource manager and a Quality Assurance manager were added to the management team. The enlarged management team will continue to strive for better operational efficiency, attraction and retention of talent, and ensuring the Group's products adhere to the strictest standards of quality.

Awards and Accolades

The Group has been recognised numerous times over the years for its achievements in corporate management and product quality, having been awarded the Enterprise 50 Award in 2008, the Singapore SME 500 Company in 2009 and the MasterCard CQM Certification in 2009. In 2010, the Group was again awarded the Singapore SME 500 Company, the second year running for which the Group has received this award.

Moving Ahead

In view of the inflationary pressure and keen competition moving forward, the Group intends to maintain its competitive edge by focusing on the high security smart card market segment. The high security smart card is increasingly being used in applications for the banking and financial services, telecommunications, travel, healthcare sectors and public transport as well as identity applications such as driving license, passport and identity card.

In particular, the Group reckons that the continued adoption of EMV standards will lead to exponential growth in applications of high security smart cards in the financial and banking industry. By focusing on this segment, the Group will be in the position to ride along the strong growth for the segment.

To manage the rising costs, the Group will also review its operations to identify areas where resources can be rationalised, processes can be optimised and production can be made more efficient.

To accommodate the expected expansion in production capacity in future, and to improve the physical security of the factory, the Group will be moving to a new location which will have a larger floor space when its current lease expires in June 2011.

Furthermore, the Group will also be exploring possible opportunities for collaborations with suitable partners to create new products and enhance the Group's value chain. This will allow the Group to enlarge its base and accelerate the growth of the Group as it continues to move towards its objective of becoming a global leading contract manufacturer specialised in the assembly and testing of smart card IC modules.



Key Management Profile

Yeo Choon Tat

Financial Controller

Yeo Choon Tat, aged 57, Financial Controller, is mainly responsible for the finance and administration of our Group with the overall management of our Group's financial reporting, internal control and accounting processes. Mr Yeo joined the Group in September 2008 and brings with him over 30 years of Finance, Accounting and Management experience in high technology industry. Mr Yeo holds a Bachelor of Accountancy from the University of Singapore and is a Fellow Member of The Institute of Certified Public Accountants of Singapore, CPA Australia (FCPA Australia) and the ACCA U.K. (FACCA).

Pang Sze Yong

Sales Director

Pang Sze Yong, aged 39, Sales Director, responsible for Sales and Business Development of our Group. Mr Pang joined our Group in October 2005 and brings with him over 10 years of relevant experience in sales and business development in the smart card industry. Mr Pang holds a Diploma in Electronics and Communications from Singapore Polytechnic and a Bachelor Degree in Applied Science (Computer Engineering) from Nanyang Technological University and a Graduate Diploma in Marketing Management from Singapore Institute of Management.

Teo Hock Beng

Operations Manager

Teo Hock Beng, aged 47, is the Operations Manager of our subsidiary Smartflex Technology Pte Ltd. He is responsible for operations management and joined the company in January 2011, bringing with him over 22 years of engineering, program management and operations experience in electronic industry. He worked in various companies, including Flextronic Singapore, Hanna Microelectronic (China) and Maxtor Singapore. Teo holds a Bachelor of Business Administration from Oklahoma University in USA and a Diploma in Mechanical Engineering from Singapore Ngee Ann Polytechnic.

Gavin Ong

QA Manager

Gavin Ong, aged 47, is the QA Manager of our subsidiary, Smartflex Technology Pte Ltd. He joined in September 2010. He has more than 25 years of experience in Quality management in electronics industry. He worked in various companies, including Kinergy Ltd., Allied Telesis International, Manufacturers Services, JIT Electronics, Aztech Systems and Astec International. He holds a Master of Engineering Science from the University of New South Wales (Australia), a Bachelor of Engineering Management from the University of Western Sydney (Australia), a Higher Diploma in Business Management from the Oklahoma City University (USA) and a Diploma in Industrial Engineering from the National and Productivity Board (Singapore). He is a Certified Quality Engineer, Certified Reliability Engineer and member of Singapore Quality Institute.

Vincent Sim

Human Resource Manager

Vincent Sim, aged 43, is the Human Resource Manager of our subsidiary, Smartflex Technology Pte. Ltd. He is responsible for human resource management and joined the company in May 2010, bringing with him over 20 years of human resource experience. Vincent holds a Bachelor of Business Administration from LaTrobe University in Australia and a Diploma in Human Resource Management from the Singapore Human Resources Institute."

* None of the Key Managers is related to any director or substantial shareholder of the Company.

Corporate Information



Board of Directors

Tan Tong Guan	<i>Executive Chairman</i>
Eric Ng Eng Seng	<i>CEO and Executive Director</i>
Tan Geok Moey	<i>Non-Executive Director</i>
Teo Zee Vee	<i>Independent Director</i>
Chan Kum Kit	<i>Independent Director</i>

Audit Committee

Chan Kum Kit	<i>Chairman (Independent)</i>
Teo Zee Vee	<i>Member (Independent)</i>
Tan Geok Moey	<i>Member (Non-Executive)</i>

Nominating Committee

Teo Zee Vee	<i>Chairman (Independent)</i>
Chan Kum Kit	<i>Member (Independent)</i>
Tan Geok Moey	<i>Member (Non-Executive)</i>

Remuneration Committee

Teo Zee Vee	<i>Chairman (Independent)</i>
Chan Kum Kit	<i>Member (Independent)</i>
Tan Geok Moey	<i>Member (Non-Executive)</i>

Company Secretaries

Lee Seng Suan FCPA, ACIS
 Koh Ee Koon ACIS
 Telephone : (65) 6603 6130
 Fax : (65) 6295 2191

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enquiry@smartflex.com.sg

Share Registrar

Boardroom Corporate & Advisory Services Pte. Ltd.
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 Singapore 048623
 Telephone : (65) 6536 5355
 Fax : (65) 6536 1360

Sponsors

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 Singapore 048623
 Telephone : (65) 6337 5115
 Fax : (65) 6337 5335

Auditors

Ernst & Young LLP
 One Raffles Quay
 North Tower, Level 18
 Singapore 048583
 Partner-in-charge: Chian Khong Tan
 Telephone : (65) 6535 7777
 Fax : (65) 6532 7662
 (Partner-in-charge: Tan Chian Khong)
 (Appointed on 15th January 2008)

Principal Bankers

Australia and New Zealand Banking Group Limited (ANZ)
 DBS Bank Ltd
 Oversea-Chinese Banking Corporation Limited
 Standard Chartered Bank
 United Overseas Bank Limited

Financial Contents

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Report on Corporate Governance



Smartflex Holdings Ltd (the "**Company**") was admitted to the Official List of the SGX-Catalist on 19 July 2010.

The board of directors of the Company (the "**Board**") believes in having high standards of corporate governance and is committed to ensuring that effective self-regulatory corporate practices exist to protect the interests of its shareholders and maximise long term shareholder value.

As required by the Rules of Catalist of the Singapore Exchange Securities Trading Limited ("**SGX-ST**"), the following report describes the Company's corporate governance practices with specific reference to the principles and guidelines set out in the Code of Corporate Governance 2005 (the "**Code**").

The Company confirms there has been no deviation from the stated Code of Corporate Governance in the year under review.

Principle 1: The Board's Conduct of Affairs

The Company is headed by an effective Board to lead and control the Company. The Board has the overall responsibility for corporate governance, strategic direction and investments of the Company. Each individual Director is obliged to act in good faith and exercise independent judgment in the best interests of shareholders of the Company at all times.

The Board's principal functions include:

- Determining, reviewing and approving the corporate strategies and directions of the Group, annual budgets, major investments, divestments and funding proposals;
- Overseeing the business and affairs of the Group, establishing with the management, the strategies and financial objectives to be implemented by the management, and monitoring the performance of the management;
- establish a framework of prudent and effective controls which enables risk to be assessed and managed;
- set the Company's values and standards, and ensure that obligations to shareholders and others are understood and met; and
- Reviewing the Group's financial performance, risk management processes and systems, financial and human resource requirements and corporate governance practices.

To assist the Board in the discharge of its functions, the Audit Committee, the Nominating Committee and the Remuneration Committee have been constituted with clear written terms of reference. Matters which are delegated to Board Committees for more detailed appraisals are reported to and monitored by the Board.

The Board meets regularly and at least 2 times a year, and as warranted by particular circumstances, as deemed appropriate by the board members. Directors are free to discuss and voice their concerns on any matter raised at the Board meetings. Telephonic and videoconferencing meetings of the Board are allowed under the Company's Articles of Association. All Directors are provided with the agenda and a set of the Board papers prior to the Board meeting. These are issued in advance to give the Directors sufficient time to better understand the matters to be discussed and to obtain further clarifications or explanations at the Board meeting where necessary. The Company and the Board acknowledges that an unimpeded flow of relevant information in a timely manner is crucial for the Board to be effective in discharging its duties and responsibilities.



Report on Corporate Governance

The Board has identified, without limitation, the following matters that require its approval:

- Declaration of dividends and other returns to shareholders of the Company;
- Major corporate policies on key areas of operation;
- Major funding proposals or bank borrowings;
- Corporate or financial restructuring and share issuances;
- Mergers and acquisitions;
- Material acquisitions and disposals;
- Approval of transactions involving interested person transactions; and
- Appointments of new Directors.

Upon appointment of each Director, he will be given appropriate briefings by the management on the business activities of the Group, its strategic directions and the Company's corporate governance policies and practices.

Directors will be updated regularly on accounting and regulatory changes, and are encouraged to attend workshops, seminars and training, to enhance their skills and knowledge, or on relevant new laws, regulations and changing commercial risks.

The attendance of the Directors at meetings of the Board and Board Committees since the initial public offering and listing of shares of the Company on 19 July 2010 are set out as follows:

Directors	Board		Audit Committee		Nominating Committee		Remuneration Committee	
	No. of meetings held while being a member	No. of meetings attended	No. of meetings held while being a member	No. of meetings attended	No. of meetings held while being a member	No. of meetings attended	No. of meetings held while being a member	No. of meetings attended
Tan Tong Guan	2	2	–	1*	–	1*	–	1*
Eric Ng Eng Seng	2	2	–	1*	–	1*	–	1*
Tan Geok Moey	2	2	1	1	1	1	1	1
Teo Zee Vee	2	2	1	1	1	1	1	1
Chan Kum Kit	2	2	1	1	1	1	1	1

* Attended by invitation

Report on Corporate Governance



Principle 2: Board Composition and Balance

The Board currently comprises 2 Executive Directors, 1 Non-Executive Director and 2 Non-Executive and Independent Directors.

The Board members as of the date of this report are:

Tan Tong Guan	Executive Chairman
Eric Ng Eng Seng	CEO and Executive Director
Tan Geok Moey	Non-Executive Director
Teo Zee Vee	Non-Executive and Independent Director
Chan Kum Kit	Non-Executive and Independent Director

The Board is of the view that its current size and composition are appropriate to facilitate effective decision making, and provide sufficient diversity of expertise to lead and govern the Company effectively, considering the scope and nature of its operations.

The Company has in place a Nominating Committee which determines the independence of each Director annually based on the definition of independence as set out in the Code.

The Non-Executive and Independent Directors will assist to develop strategy and goals for the Group and regularly assess the performance of the management, and monitor the reporting of performance.

A brief profile of each Director is set out on page 7 in the Annual Report. The Directors, as a group, provide core competencies such as accounting or finance, business or management experience, industry knowledge, strategic planning experience and customer based experience or knowledge, required for the Board to be effective.

Principle 3: Chairman and Chief Executive Officer

The roles of Chairman and Chief Executive Officer are separate to ensure an appropriate balance of power, increased accountability and greater capacity of the Board for independent decision making.

Tan Tong Guan is the Executive Chairman of the Company and one of its co-founders. He leads the Board and is responsible for the management of the Board. The Executive Chairman is in charge of charting the business direction as well as corporate planning and strategic developments of the Group. The Executive Chairman encourages Board's interaction with the management, facilitates effective contribution of non-Executive Directors, encourages constructive relations among the Directors and promotes high standards of corporate governance. In addition, the Executive Chairman ensures that the Directors receive accurate, timely and clear information and there is effective communication with shareholders of the Company.

Eric Ng Eng Seng is the Chief Executive Officer and Executive Director of the Company. He is responsible for the overall business and strategic development, corporate planning, operations and management of the Group.



Report on Corporate Governance

Principle 4: Board Membership

The Nominating Committee's primary roles are to create a formal and transparent process for the appointments and re-nominations of members of the Board and to assess the effectiveness of the Board as a whole and the contribution of individual Directors to the effectiveness of the Board as well as to affirm annually the independence of the Directors. There exist written terms of reference that describe the responsibilities of the members of the Nominating Committee.

The Nominating Committee is scheduled to meet at least once a year. The Nominating Committee comprises the following members, all of whom are non-executive and the majority, including the Chairman, are independent:

Teo Zee Vee	Chairman (Non-Executive and Independent)
Chan Kum Kit	Member (Non-Executive and Independent)
Tan Geok Moey	Member (Non-Executive)

For new appointments to the Board, the Nominating Committee will consider the Company's current Board size and its composition and decide if the candidate's background, expertise and knowledge will complement the skills and competencies of the existing Directors on the Board. The candidate must be a person of integrity and must be able to commit sufficient time and attention to the affairs of the Company, especially if he is serving on multiple Boards.

If a vacancy arises under any circumstances, or where it is considered that the Board would benefit from the services of a new director, the Nominating Committee, in consultation with the Board, will determine the selection criteria and select the appropriate candidates for the position.

All Directors submit themselves for re-nomination and re-election at regular intervals at least once every 3 years. One-third of the Directors will retire at the Company's annual general meeting each year. The Nominating Committee is charged with the responsibility of re-nomination having regard to the director's contribution and performance (e.g. attendance, preparedness, participation and candour) including, if applicable, as an independent director.

Annually, the Nominating Committee is required to determine the independence status of the Directors, bearing in mind the circumstances set forth in the Code and any other salient factors. Each member of the Nominating Committee shall abstain from voting on any resolutions in respect of the assessment of his performance or re-nomination as a Director.

Report on Corporate Governance



Principle 5: Board Performance

The Board and the Nominating Committee strive to ensure that Directors on the Board possess the experience, knowledge and skills critical to the Group's business so as to enable the Board to make sound and well-considered decisions.

The Nominating Committee will, subject to the approval of the Board, implement a process for evaluating the effectiveness of the Board as a whole and the contribution by each individual Director to the effectiveness of the Board and set objective performance criteria for such evaluation.

Individual evaluation should aim to assess whether each director continues to contribute effectively and demonstrate commitment to the role (including commitment of time for board and committee meetings, and any other duties). The Chairman should act on the results of the performance evaluation, and where appropriate, propose new members be appointed to the Board or seek the resignation of directors, in consultation with the Nominating Committee.

Principle 6: Access to Information

The Board is provided with complete, accurate, and adequate information in a timely manner, prior to board meetings and on an on-going basis, to enable it to fulfill its responsibilities. Such information include background or explanatory information relating to matters to be brought before the Board, copies of disclosure documents, budgets, forecasts and monthly internal financial statements. In respect of budgets, any material variance between the projections and actual results will be disclosed and explained. Such information is provided to the Directors enable them to keep abreast of the Group's operational and financial performance and position and to facilitate more-informed decision-making. Board members also have separate and independent access to the senior management and the company secretary at all times. Board members may, at the Company's expense, also obtain independent professional advice as and when necessary in furtherance of their duties.

The company secretary will attend all Board Meetings to ensure that Board procedures are followed and that applicable rules and regulations, including the requirements of the Companies Act (Chapter 50) of Singapore and the Rules of Catalyst are complied with. Under the direction of the Chairman, the company secretary's other responsibilities include ensuring good information flows within the Board and its committees and between senior management and non-Executive Directors, as well as facilitating orientation and assisting with professional development as required. The appointment and the removal of the company secretary is a matter for the Board as a whole.



Report on Corporate Governance

Principle 7: Procedures for Developing Remuneration Policies

The Remuneration Committee comprises the following members, all of whom are non-executive and the majority, including the Chairman, are independent:

Teo Zee Vee	Chairman (Non-Executive and Independent)
Chan Kum Kit	Member (Non-Executive and Independent)
Tan Geok Moey	Member (Non-Executive)

The Remuneration Committee performs the following functions:

- recommends to the Board a framework of remuneration for the Directors and Executive Officers, and determine specific remuneration packages for each Director, and the recommendations of the Remuneration Committee are submitted for endorsement by the entire Board. All aspects of remuneration, including but not limited to Directors' fees, salaries, allowances, bonuses, options and benefits-in-kind will be covered by the Remuneration Committee; and
- performs an annual review of the remuneration of employees related to the Directors and Substantial Shareholders to ensure that their remuneration packages are in line with the Company's staff remuneration guidelines and commensurate with their respective job scope and level of responsibilities. It will also review and approve any bonuses, pay increases and/or promotions for these employees.

Each member of the Remuneration Committee shall abstain from voting on any resolutions in respect of his remuneration package or that of employees related to him.

Principle 8: Level and Mix of Remuneration

As part of its review, the Remuneration Committee ensures that remuneration packages are comparable within the industry and with similar companies. The Remuneration Committee considers the Group's relative performance and the contributions and responsibilities of the individual Directors.

Policy in respect of Executive Directors and other Executive Officers

Executive Directors do not receive directors' fees. Executive Directors are paid a basic salary pursuant to their respective service agreements, each of which is for a fixed appointment period of 3 years. While our Executive Directors have entered into service agreements with our Company, after the initial term of three (3) years, their employment with the Company may be terminated at any time by either party giving to the other party three (3) months' notice in writing or in lieu of the said three months' notice, an amount equivalent to three (3) months' salary based on the Executive Director's last drawn salary.

The Group advocates a performance-based remuneration system that is highly flexible and responsive to the market, the Group's and the individual employee's performance. The total remuneration mix comprises annual fixed cash and annual performance incentive. The annual fixed cash component comprises the annual basic salary plus any other fixed allowances. The annual performance incentive is tied to the Group's and the individual employee's performance.

Report on Corporate Governance



Policy in respect of Non-Executive Directors' remuneration

Non-Executive Directors do not have service agreements with the Company. They are compensated based on fixed directors' fees, which are determined by the Board based on their contribution, taking into consideration factors such as effort, time spent and responsibilities of the Non-Executive Directors. The members of the Audit Committee are paid a higher fee than the members of the other Board committees because of the heavier responsibilities and more frequent meetings required of them. The Chairman of each Board committee is also paid a higher fee compared with members of the Board committee in view of the higher responsibility carried by that office. The directors' fees are subject to approval by the shareholders at the Annual General Meeting. Non-Executive Directors do not receive any other remuneration from the Company.

Principle 9: Disclosure on Remuneration

The level and mix of remuneration of the Company's Directors and Executive Officers (who are not also directors) for the financial year ended 31 December 2010 are as follows:

Remuneration band and Name of Director/Executive Officers Below S\$250,000	Base/Fixed salary	Bonus	Directors' fees	Benefits- in-kind	Total
Directors					
Tan Tong Guan	87%	13%	–	–	100%
Eric Ng Eng Seng	86%	14%	–	–	100%
Tan Geok Moey	–	–	100%	–	100%
Teo Zee Vee	–	–	100%	–	100%
Chan Kum Kit	–	–	100%	–	100%
Executive Officers					
Yeo Choon Tat	79%	21%	–	–	100%
Pang Sze Yong	58%	42%	–	–	100%
Vincent Sim Chee Hui	100%	–	–	–	100%
Ong Lay Khoon	100%	–	–	–	100%

There is no employee of the Group who is an immediate family member of any Director and whose remuneration exceeded S\$150,000 during the financial year ended 31 December 2010. "Immediate family member" means the spouse, child, adopted child, stepchild, brother, sister and parent



Report on Corporate Governance

The Company does not currently have an employee share scheme in place.

Principle 10: Accountability

The Board is responsible for providing a balanced and understandable assessment of the Company's performance, position and prospects. Financial reports and other price sensitive information are disseminated to shareholders through announcements via SGXNET to SGX-ST and press releases. The Group makes announcement of its financial results on a six monthly basis. Management provides the Board with management accounts on a monthly basis. Such reports keep the Board informed of, on a balanced and understandable basis, the Group's performance, position and prospects and enable the Board to discharge its duties efficiently.

Principle 11: Audit Committee

The Audit Committee currently comprises the following members, all of whom are non-executive and the majority, including the Chairman, are independent:

Chan Kum Kit	Chairman (Non-Executive and Independent)
Teo Zee Vee	Member (Non-Executive and Independent)
Tan Geok Moey	Member (Non-Executive)

All members of the Audit Committee have accounting and related financial management expertise and experience.

The Audit Committee has explicit authority to investigate any matter within its terms of reference, full access to and co-operation by the management, full discretion to invite any persons including a Director or an employee of the Group to attend its meeting, and reasonable resources to enable it to discharge its functions properly.

The Audit Committee will assist the Board in discharging its responsibility to safeguard the assets of the Company, maintain adequate accounting records, and develop and maintain effective systems of internal control, with the overall objective of ensuring that the management creates and maintains an effective control environment in the Group. The Audit Committee will provide a channel of communication between the Board, the management and the independent auditor on matters relating to audit.

The Audit Committee meets periodically to perform, *inter alia*, the following functions:

- Review the scope and results of the audit and its cost effectiveness;
- Review the significant financial reporting issues and judgments so as to ensure the integrity of the financial statements of the Company and any formal announcements relating to the Company's financial performance;
- Make recommendations to the Board on the appointment, re-appointment and removal of external auditor,

Report on Corporate Governance



and approving the remuneration and terms of engagement of external auditor;

- Review with the external auditors the audit plan, their evaluation of the system of internal accounting controls, their letter to management and the management's response;
- Review the half yearly and annual financial statements and results announcements before submission to the Board for approval, focusing in particular on changes in accounting policies and practices, major risk areas, significant adjustments resulting from the audit, compliance with accounting standards and compliance with the Rules of Catalist and any other relevant statutory or regulatory requirements;
- Review annually the adequacy of the Company's internal financial controls, operational and compliance controls, and risk management policies and systems established by the management. The Audit Committee will also ensure co-ordination between the independent auditor and the management, and review the assistance given by the management to the independent auditor, and discuss problems and concerns, if any, arising from audits, and any matters which the independent auditor may wish to discuss (in the absence of the management, where necessary);
- Review and discuss with the independent auditor any suspected fraud or irregularity, or suspected infringement of any relevant laws, rules or regulations, which have or are likely to have a material impact on the Group's operating results or financial position, and the management's response;
- Consider and recommend the appointment or re-appointment of the independent auditor and matters relating to the resignation or dismissal of the independent auditor;
- Review interested person transactions (if any) falling within the scope of Chapter 9 of the Rules of Catalist;
- Review potential conflicts of interest (if any);
- Review with the internal auditors the internal audit plans and their evaluation of the adequacy of the internal control and accounting system before submission of the results of such review to the Board for approval;
- Review and establish procedures for receipt, retention and treatment of complaints received by the Group regarding, *inter alia*, criminal offences involving the Group or its employees, questionable accounting, auditing, business, safety or other matters that impact negatively on the Group;
- Review key financial risk areas, with a view to providing an independent oversight on the Group's financial reporting, the outcome of such review to be disclosed in the annual report or, where the findings are material, announced immediately via SGXNET;



Report on Corporate Governance

- Review the Group's compliance with relevant government regulations and licensing requirements;
- Undertake such other reviews and projects as may be requested by the Board, and report to the Board its findings from time to time on matters arising and requiring the attention of the Audit Committee; and
- Generally undertake such other functions and duties as may be required by statute or by the Rules of Catalist, or by such amendments as may be made thereto from time to time.

The Audit Committee will meet with external auditors and with internal auditors, at least annually, and more frequently, when required, with at least one of the meetings conducted without the presence of management. The Audit Committee will review the independence and objectivity of external auditors annually. The Audit Committee shall also commission and review the findings of internal investigations into matters where there is any suspected fraud or irregularity, or failure of internal controls or infringement of any Singapore law, rule or regulation which has or is likely to have a material impact on the operating results and/or financial position of the Group. In the event that a member of the Audit Committee is interested in any matter being considered by the Audit Committee, he will abstain from reviewing that particular transaction or voting on that particular resolution.

The Audit Committee will review arrangements by which staff of the Company may, in confidence, raise concerns about possible improprieties in matters of financial reporting or other matters. The objective of the Audit Committee will be to ensure that arrangements are in place for the independent investigation of such matters and for appropriate follow-up actions.

Principle 12: Internal Controls

The Audit Committee has reviewed the reports submitted by the external and internal auditors relating to the effectiveness of the Group's significant internal controls, including financial, operational and compliance controls, risk management, and risks of fraud and irregularities. The Audit Committee will also review the effectiveness of the actions taken by the management on the recommendations made by the external and internal auditors in this respect.

The Board has reviewed the effectiveness of the internal controls, including financial, operational and compliance controls and risk management and is satisfied that these controls are adequate to meet the needs of the Company in its current business environment.

Principle 13: Internal Audit

The role of internal auditor is to assist the Audit Committee to ensure that the Company maintains a sound system of internal controls. The Company has appointed an external professional consulting firm, Nexia TS Public Accounting Corporation, as the internal auditor to review the adequacy and integrity of the Group internal control system so as to ensure that the internal audit function is adequately resourced and has appropriate standing with the Company. The internal auditor is required to meet the standard required for the Professional Practice of Internal Auditing set by the Institute of Internal Auditors. The internal auditor reports directly to the Audit Committee. The Audit Committee will approve the internal audit plan and ensure sufficiency of internal audit resources to perform

Report on Corporate Governance



its tasks. The Audit Committee will, at least annually, review the adequacy of the internal audit function.

Principle 14 and 15: Communication with Shareholders

The Board believes in regular, timely and effective communication with shareholders. Shareholders are kept informed of all important developments concerning the Group through timely dissemination of information via SGXNET announcements, press releases, annual reports and various other announcements made whenever necessary. The Company also maintains a website at <http://www.smartflex.com.sg> at which shareholders can access information about the Group.

Dealings in Securities

The Company observes closely the best practices on dealings in securities ("*Securities Dealings Best Practices*") in compliance with Rule 1204(18) of the Rules of Catalist. The Securities Dealings Best practices provide guidance to the Directors and employees of the Group with regard to dealing in the Company's securities.

The Company issues circulars or electronics mails to its Directors, Executive Officers and employees that they must not trade in the shares of the Company during the period commencing 1 month before the release of the half year and year-end results and ending on the date of such announcements. In addition, Directors and Executive Officers are expected to observe insider trading laws at all times even when dealing in securities within the permitted trading period. They are discouraged from dealing in the Company's shares on short term considerations.

Interested Person Transactions

The Company has established procedures to ensure that all transactions with interested persons are reported in a timely manner to the Audit Committee and that the transactions are carried out on normal commercial terms and shall not be prejudicial to the interests of the Company and its minority shareholders. When a potential conflict of interest arises, the Director concerned takes no part in discussions nor exercises any influences over other members of the Board.

During the year under review, there have been no interested person transactions requiring disclosure.

Material Contracts

There were no material contracts entered into by the Company or any of its subsidiaries companies involving the interest of any Director or controlling shareholders of the Company.



Report on Corporate Governance

Non-Audit Fees

Ernst & Young LLP, the external auditors, acted as the reporting accountants pursuant to the initial public offering ("**IPO**") of the Company's shares on SGX-Catalist in May 2010, and also rendered the following services (and charged the fees) set out below for the financial year ended 31 December 2010:

Fees for tax advisory services rendered to the Group	S\$9,000
Fees for Accountant's Report pertaining to the Company's IPO	S\$230,970

The Audit Committee has reviewed all non-audit services (described above) provided by Ernst & Young LLP and are of the view that they did not affect the independence of Ernst & Young LLP, as the external auditors.

Non-Sponsorship Fees

No fees relating to non-sponsoring activities or services were paid to the Company's sponsor for the financial year ended 31 December 2010.



Directors' Report

The directors are pleased to present their report to the members together with the audited consolidated financial statements of Smartflex Holdings Ltd. (the "Company") and its subsidiary (collectively the "Group") and the balance sheet and statement of changes in equity of the Company for the financial year ended 31 December 2010.

Directors

The directors of the Company in office at the date of this report are:

Tan Tong Guan
 Ng Eng Seng Eric
 Chan Kum Kit
 Tan Geok Moey
 Teo Zee Vee

Arrangements to enable directors to acquire shares and debentures

Neither at the end of nor at any time during the financial year was the Company a party to any arrangement whose objects are, or one of whose object is, to enable the directors of the Company to acquire benefits by means of the acquisition of shares in or debentures of the Company or any other body corporate.

Directors' interests in shares

The following directors, who held office at the end of the financial year, had, according to the register of directors' shareholdings required to be kept under Section 164 of the Singapore Companies Act, Cap. 50, an interest in shares of the Company and related corporations as stated below:

Name of director	Number of ordinary shares			
	Direct interest		Deemed interest	
	At the beginning of financial year or date of appointment	At the end of financial year	At the beginning of financial year or date of appointment	At the end of financial year
The Company				
Tan Tong Guan	1	240,001	–	51,170,000
Ng Eng Seng Eric	1	3,480,001	–	–
Tan Geok Moey	–	–	–	51,170,000
Ultimate holding company				
Tan Gee Beng Pte Ltd				
Tan Tong Guan	16,975	16,975	7,333	7,333
Tan Geok Moey	11,120	11,120	–	–
Subsidiary company				
Smartflex Technology Pte Ltd				
Tan Tong Guan	120,000	–	25,585,000	34,720,000
Ng Eng Seng Eric	1,740,000	–	–	–
Tan Geok Moey	–	–	25,585,000	34,720,000

Note: There was no change in any of the abovementioned interests of the directors between the end of financial year and 21 January 2011.



Directors' Report

Directors' interests in shares and debentures (Continued)

Except as disclosed in this report, no other director who held office at the end of the financial year had interests in shares of the Company, or of related corporations, either at the beginning of the financial year, or date of appointment if later, or at the end of the financial year.

Directors' contractual benefits

Except as disclosed in the financial statements, since the end of the previous financial year, no director of the Company has received or become entitled to receive a benefit by reason of a contract made by the Company or a related corporation with the director, or with a firm of which the director is a member, or with a company in which the director has a substantial financial interest.

Audit committee

The audit committee ("AC") carried out its functions in accordance with section 201B (5) of the Singapore Companies Act, Cap. 50.

The AC, having reviewed all non-audit services provided by the external auditors to the Group, is satisfied that the nature and extent of such services would not affect the independence of external auditors. The AC has also conducted a review of interested person transactions.

The AC convened one meeting during the year with full attendance from all members. The AC has also met with external auditors, without the presence of the Company's management, at least once a year.

Further details regarding the AC are disclosed in the Report on Corporate Governance.

Auditors

Ernst & Young LLP have expressed their willingness to accept reappointment as auditors.

On behalf of the board of directors:

Tan Tong Guan

Director

Ng Eng Seng Eric

Director

Singapore

21 March 2011

Statement by Directors



We, Tan Tong Guan and Ng Eng Seng Eric, being two of the directors of Smartflex Holdings Ltd., do hereby state that, in the opinion of the directors,

- (a) the accompanying balance sheets, consolidated statement of comprehensive income, statements of changes in equity, and consolidated cash flow statement together with the notes thereto are drawn up so as to give a true and fair view of the state of affairs of the Group and of the Company as at 31 December 2010 and the results of the business, the state of affairs of the Company, changes in equity and cash flows of the Group and the changes in equity of the Company for the financial year ended on that date; and
- (b) at the date of this statement, there are reasonable grounds to believe that the Company will be able to pay its debts as and when they fall due.

On behalf of the board of directors:

Tan Tong Guan

Director

Ng Eng Seng Eric

Director

Singapore

21 March 2011



Independent Auditors' Report

TO THE MEMBERS OF SMARTFLEX HOLDINGS LTD

Report on the consolidated financial statements

We have audited the accompanying consolidated financial statements of Smartflex Holdings Ltd. (the "Company") and its subsidiary (collectively, the "Group") set out on pages 30 to 69, which comprise the balance sheets of the Group and the Company as at 31 December 2010, the statements of changes in equity of the Group and the Company and the consolidated statement of comprehensive income and consolidated cash flow statement of the Group for the year then ended, and a summary of significant accounting policies and other explanatory information.

Management's responsibility for the consolidated financial statements

Management is responsible for the preparation of consolidated financial statements that give a true and fair view in accordance with the provisions of the Singapore Companies Act, Cap. 50 (the "Act") and Singapore Financial Reporting Standards, and for devising and maintaining a system of internal accounting controls sufficient to provide a reasonable assurance that assets are safeguarded against loss from unauthorised use or disposition; and transactions are properly authorised and that they are recorded as necessary to permit the preparation of true and fair profit and loss accounts and balance sheets and to maintain accountability of assets.

Auditors' responsibility

Our responsibility is to express an opinion on these consolidated financial statements based on our audit. We conducted our audit in accordance with Singapore Standards on Auditing. Those standards require that we comply with ethical requirements and plan and perform the audit to obtain reasonable assurance about whether the consolidated financial statements are free from material misstatement.

An audit involves performing procedures to obtain audit evidence about the amounts and disclosures in the consolidated financial statements. The procedures selected depend on the auditor's judgment, including the assessment of the risks of material misstatement of the consolidated financial statements, whether due to fraud or error. In making those risk assessments, the auditor considers internal control relevant to the entity's preparation of the consolidated financial statements that give a true and fair view in order to design audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the entity's internal control. An audit also includes evaluating the appropriateness of accounting policies used and the reasonableness of accounting estimates made by management, as well as evaluating the overall presentation of the consolidated financial statements.

We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our audit opinion.

Independent Auditors' Report

TO THE MEMBERS OF SMARTFLEX HOLDINGS LTD



Opinion

In our opinion, the consolidated financial statements of the Group and the balance sheet and statement of changes in equity of the Company are properly drawn up in accordance with the provisions of the Act and Singapore Financial Reporting Standards so as to give a true and fair view of the state of affairs of the Group and of the Company as at 31 December 2010 and the results, changes in equity and cash flows of the Group and the changes in equity of the Company for the year ended on that date.

Report on other legal and regulatory requirements

In our opinion, the accounting and other records required by the Act to be kept by the Company and by its subsidiary incorporated in Singapore of which we are the auditors have been properly kept in accordance with the provisions of the Act.

Ernst & Young LLP

Public Accountants and Certified Public Accountants

Singapore

21 March 2011



Balance Sheets

AS AT 31 DECEMBER 2010

		Group	At 1 January	Company
	Note	2010	2009	2010
		(restated)	(restated)	
		US\$	US\$	US\$
Non-current assets				
Property, plant and equipment	3	8,737,868	7,725,264	8,816,145
Investment in subsidiary	4	–	–	7,197,408
Current assets				
Inventories	5	1,250,136	618,438	1,436,084
Trade and other receivables	6	3,925,324	3,176,778	1,978,300
Amount owing by subsidiary		–	–	1,233,510
Prepayments		28,317	73,839	16,764
Cash and cash equivalents	7	2,847,624	1,904,984	1,689,861
		8,051,401	5,774,039	5,121,009
Total assets		16,789,269	13,499,303	13,937,154
Current liabilities				
Trade payables	8	1,308,034	1,539,531	1,224,736
Other payables and accruals	9	796,839	499,127	328,953
Loans and borrowings	10	2,680,014	3,402,734	6,616,282
Tax payable		326,473	–	–
		5,111,360	5,441,392	8,169,971
Net current assets/(liabilities)		2,940,041	332,647	(3,048,962)
Non-current liabilities				
Deferred tax liability	11	(1,111,548)	(860,503)	(491,348)
Deferred capital grants		–	–	(2,262)
Net assets		10,566,361	7,197,408	5,273,573
Share capital	12	9,125,528	7,197,408	7,197,408
Revenue reserves		6,429,230	4,988,397	3,064,562
Merger reserve	13	(4,988,397)	(4,988,397)	(4,988,397)
Total equity		10,566,361	7,197,408	5,273,573
Total equity and liabilities		16,789,269	13,499,303	13,937,154

The accompanying accounting policies and explanatory notes form an integral part of the financial statements.

Consolidated Statement of Comprehensive Income

FOR THE FINANCIAL YEAR ENDED 31 DECEMBER 2010



	Note	2010 US\$	2009 US\$
Revenue	14	26,834,314	18,102,441
Cost of sales		(20,532,423)	(13,600,071)
Gross profit		6,301,891	4,502,370
Other operating income	15	9,904	100,720
Selling and distribution expenses		(64,654)	(41,853)
Administrative expenses		(3,549,466)	(2,136,265)
Finance expense	16	(62,312)	(131,982)
Profit before taxation	17	2,635,363	2,292,990
Taxation	18	(577,518)	(369,155)
Profit net of tax		2,057,845	1,923,835
Other comprehensive income for the year, net of tax		–	–
Total comprehensive income attributable to equity holders of the Company		2,057,845	1,923,835
Earnings per share (in US\$ cents)			
Basic and diluted	19	2.71	2.77

The accompanying accounting policies and explanatory notes form an integral part of the financial statements.



Statements of Changes in Equity

FOR THE FINANCIAL YEAR ENDED 31 DECEMBER 2010

Group	Share capital	Accumulated	Merger	Total	Total
	(Note 12)	profits	reserve	reserves	equity
	US\$	US\$	US\$	US\$	US\$
Balance at 1 January 2010	7,197,408	4,988,397	(4,988,397)	–	7,197,408
Profit for the year	–	2,057,845	–	2,057,845	2,057,845
Total comprehensive income for the year	–	2,057,845	–	2,057,845	2,057,845
Dividends on ordinary shares (Note 23)	–	(617,012)	–	(617,012)	(617,012)
Issuance of new shares pursuant to the IPO	2,043,121	–	–	–	2,043,121
Shares issuance expense	(115,001)	–	–	–	(115,001)
Balance at 31 December 2010	<u>9,125,528</u>	<u>6,429,230</u>	<u>(4,988,397)</u>	<u>1,440,833</u>	<u>10,566,361</u>
Balance at 1 January 2009	7,197,408	3,064,562	(4,988,397)	(1,923,835)	5,273,573
Profit for the year	–	1,923,835	–	1,923,835	1,923,835
Total comprehensive income for the year	–	1,923,835	–	1,923,835	1,923,835
Balance at 31 December 2009	<u>7,197,408</u>	<u>4,988,397</u>	<u>(4,988,397)</u>	<u>–</u>	<u>7,197,408</u>

Company	Share capital	Accumulated	Total
	(Note 12)	losses	equity
	US\$	US\$	US\$
At 17 February 2010, date of incorporation	*	–	–
Loss for the year	–	(759,621)	(759,621)
Total comprehensive loss for the year	–	(759,621)	(759,621)
Issuance of new shares pursuant to restructuring exercise	7,197,408	–	7,197,408
Issuance of new shares pursuant to the IPO	2,043,121	–	2,043,121
Shares issuance expense	(115,001)	–	(115,001)
Balance at 31 December 2010	<u>9,125,528</u>	<u>(759,621)</u>	<u>8,365,907</u>

* Amount less than US\$2

The accompanying accounting policies and explanatory notes form an integral part of the financial statements.

Consolidated Cash Flow Statement

FOR THE FINANCIAL YEAR ENDED 31 DECEMBER 2010



	2010 US\$	2009 US\$
Cash flows from operating activities		
Profit before taxation	2,635,363	2,292,990
Adjustments for:		
Depreciation of property, plant and equipment	1,384,200	1,219,118
(Writeback of)/allowance for inventory obsolescence	–	(758)
Property, plant and equipment written off	–	6,843
Interest income	(2,616)	(407)
Interest expense	62,312	131,982
Operating profit before working capital changes	4,079,259	3,649,768
Increase in trade and other receivables	(703,024)	(1,255,553)
(Increase)/decrease in inventories	(631,698)	818,404
Increase in trade and other payables	66,215	482,707
Cash generated from operations	2,810,752	3,695,326
Interest received	2,616	407
Interest paid	(62,312)	(131,982)
Net cash generated from operating activities	2,751,056	3,563,751
Cash flows from investing activities		
Purchase of property, plant and equipment	(2,396,804)	(135,080)
Net cash used in investing activities	(2,396,804)	(135,080)
Cash flows from financing activities		
Repayment of term loan	(722,720)	(3,213,548)
Proceeds from issuance of shares	1,928,120	–
Dividends paid	(617,012)	–
Net cash from/(used in) financing activities	588,388	(3,213,548)
Net increase in cash and cash equivalents	942,640	215,123
Cash and cash equivalents at beginning of the year (Note 7)	1,904,984	1,689,861
Cash and cash equivalents at end of the year (Note 7)	2,847,624	1,904,984

The accompanying accounting policies and explanatory notes form an integral part of the financial statements.



Notes to the Financial Statements

31 DECEMBER 2010

1. Corporate information

1.1 The Company

Smartflex Holdings Ltd (the "Company") was incorporated in the Republic of Singapore on 17 February 2010 as an exempt private company limited by shares under the name of "Smartflex Holdings Pte. Ltd.". On 5 May 2010, the Company changed its name to "Smartflex Holdings Ltd" in connection with its conversion to a public company limited by shares. The Company was incorporated for the purpose of acquiring the subsidiary company pursuant to the Group Restructuring Exercise as described in Note 1.2 to the financial statements.

The registered office and principal place of business of the Company are located at 20 Tampines Street 92 Singapore 528875. The principal activity of the Company is investment holding.

1.2 Restructuring exercise

Pursuant to an agreement dated 13 April 2010, the Company acquired the entire issued and paid up capital of Smartflex Technology Pte Ltd, comprising 34,720,000 ordinary shares with effect from 13 April 2010. The purchase consideration was satisfied by the issue of 69,440,000 ordinary shares credited as fully paid in the capital of the Company to Mr Tan Tong Guan, Dr Ng Eng Seng Eric, Mr Yeo Choon Tat, Mr Lim Meng Jug, Mr Pang Sze Yong, Tan Gee Beng Private Limited and Smartron Technology Pte Ltd. Pursuant to the agreement, Smartflex Technology Pte Ltd became a wholly owned subsidiary of the Company.

As at the date of this Report, the details of the subsidiary is as shown below:

Name of Subsidiary (Country of incorporation)	Principal activities	Proportion of ownership interest
		<u> %</u>
Smartflex Technology Pte Ltd (Singapore)	Fabrication and packaging of smart card chip modules	100

Notes to the Financial Statements

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2. Summary of significant accounting policies

2.1 Basis of preparation

Although the Company was incorporated subsequent to 31 December 2009 upon which the restructuring exercise was completed on 13 April 2010, the financial statements presented for the years ended 31 December 2007, 2008 and 2009 for the purpose of inclusion in the offering document were that of the Company and its subsidiary company prepared in accordance with RAP 12 Merger Accounting for Common Control Combinations for financial statements prepared under Part IX of the Fifth Schedule to the Securities and Futures (Offers of Investments) (Shares and Debentures) Regulations 2005.

The consolidated financial statements of the Group presented for financial years ended 31 December 2009 and 2010, have been prepared using the pooling of interest method as the Company and its subsidiary company were under common control before and after the Restructuring Exercise as described in Note 1.2 above. Under the pooling of interest method, the consolidated financial statements of the Group for the financial years ended 31 December 2009 and 2010 have been presented as if the Group had been in existence for all periods presented and the assets and liabilities are brought into the combined financial statements at their existing carrying amounts. The revenue reserves recognised in the consolidated financial statements are the revenue reserves of Smartflex Technology Pte Ltd immediately before the combination.

The financial statements of the Group have been prepared in accordance with Singapore Financial Reporting Standards (FRS).

The financial statements have been prepared on a historical cost basis except as disclosed in the accounting policies below and are presented in United States Dollars (USD or US\$), which is also the Group's functional currency.

2.2 Reclassification

During the financial year ended 31 December 2010, the Group reclassified and presented the non-current portion of bank loans under loans and borrowings as current liabilities, as described in Note 10 to the financial statements.



Notes to the Financial Statements

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2. Summary of significant accounting policies (Continued)

2.3 Changes in accounting policies

The accounting policies adopted are consistent with those of the previous financial year except in the current financial year, the Group has adopted all the new and revised standards and Interpretations of FRS (INT FRS) that are effective for annual periods beginning on or after 1 January 2010. The adoption of these standards and interpretations did not have any effect on the financial performance or position of the Group and the Company except as disclosed below:

FRS 103 Business Combinations (revised) and FRS 27 Consolidated and Separate Financial Statements (revised)

The revised FRS 103 Business Combinations and FRS 27 Consolidated and Separate Financial Statements are applicable for annual periods beginning on or after 1 July 2009. As of 1 January 2010, the Group adopted both revised standards at the same time in accordance with their transitional provisions.

FRS 103 Business Combinations (revised)

The revised FRS 103 introduces a number of changes to the accounting for business combinations that will impact the amount of goodwill recognised, the reported results in the period that an acquisition occurs, and future reported results. Changes in significant accounting policies resulting from the adoption of the revised FRS 103 include:

- Transaction costs would no longer be capitalised as part of the cost of acquisition but will be expensed immediately;
- Consideration contingent on future events are recognised at fair value on the acquisition date and any changes in the amount of consideration to be paid will no longer be adjusted against goodwill but recognised in profit or loss;
- The Group elects for each acquisition of a business, to measure non-controlling interest at fair value, or at the non-controlling interest's proportionate share of the acquiree's identifiable net assets, and this impacts the amount of goodwill recognised; and
- When a business is acquired in stages, the previously held equity interests in the acquiree is remeasured to fair value at the acquisition date with any corresponding gain or loss recognised in profit or loss, and this impacts the amount of goodwill recognised.

According to its transitional provisions, the revised FRS 103 has been applied prospectively. Assets and liabilities that arose from business combinations whose acquisition dates are before 1 January 2010 are not adjusted.

Notes to the Financial Statements

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2. Summary of significant accounting policies (Continued)

2.3 Changes in accounting policies (Continued)

FRS 27 Consolidated and Separate Financial Statements (revised)

Changes in significant accounting policies resulting from the adoption of the revised FRS 27 include:

- A change in the ownership interest of a subsidiary that does not result in a loss of control is accounted for as an equity transaction. Therefore, such a change will have no impact on goodwill, nor will it give rise to a gain or loss recognised in profit or loss;
- Losses incurred by a subsidiary are allocated to the non-controlling interest even if the losses exceed the non-controlling interest in the subsidiary's equity; and
- When control over a subsidiary is lost, any interest retained is measured at fair value with the corresponding gain or loss recognised in profit or loss.

According to its transitional provisions, the revised FRS 27 has been applied prospectively, and does not impact the Group's consolidated financial statements in respect of transactions with non-controlling interests, attribution of losses to non-controlling interests and disposal of subsidiaries before 1 January 2010. The changes will affect future transactions with non-controlling interests.

The adoption of the above pronouncements did not have any material impact on the financial statements in the period of initial application.



Notes to the Financial Statements

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2. Summary of significant accounting policies (Continued)

2.4 Standards issued but not yet effective

The Group has not adopted the following standards and interpretations that have been issued but not yet effective:

Description	Effective for annual periods beginning on or after
Amendment to FRS 32 <i>Financial Instruments: Presentation – Classification of Rights Issues</i>	1 February 2010
INT FRS 119 <i>Extinguishing Financial Liabilities with Equity Instruments</i>	1 July 2010
Revised FRS 24 <i>Related Party Disclosures</i>	1 January 2011
Amendments to INT FRS 114 <i>Prepayments of a Minimum Funding Requirement</i>	1 January 2011
INT FRS 115 <i>Agreements for the Construction of Real Estate</i>	1 January 2011

Except for the revised FRS 24, the directors expect that the adoption of the other standards and interpretations above will have no material impact on the financial statements in the period of initial application. The nature of the impending changes in accounting policy on adoption of the revised FRS 24 is described below.

Revised FRS 24 Related Party Disclosures

The revised FRS 24 clarifies the definition of a related party to simplify the identification of such relationships and to eliminate inconsistencies in its application. The revised FRS 24 expands the definition of a related party and would treat two entities as related to each other whenever a person (or a close member of that person's family) or a third party has control or joint control over the entity, or has significant influence over the entity. The revised standard also introduces a partial exemption of disclosure requirements for government-related entities. The Group is currently determining the impact of the changes to the definition of a related party has on the disclosure of related party transaction. As this is a disclosure standard, it will have no impact on the financial position or financial performance of the Group when implemented in 2011.

Notes to the Financial Statements

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2. Summary of significant accounting policies (Continued)

2.5 Significant accounting estimates and judgements

Estimates and assumptions concerning the future and judgements are made in the preparation of the financial statements. They affect the application of the Group's accounting policies, reported amounts of assets, liabilities, income and expenses, and disclosures made. They are assessed on an on-going basis and are based on experience and relevant factors, including expectations of future events that are believed to be reasonable under the circumstances.

(a) *Key sources of estimation uncertainty*

The key assumptions concerning the future and other key sources of estimation uncertainty at the end of each reporting period, that have a significant risk of causing a material adjustment to the carrying amounts of assets and liabilities within the next financial year are discussed below.

(i) Useful lives of property, plant and equipment

The cost of property, plant and equipment for the fabrication and packaging of smart card chips modules is depreciated on a straight-line basis over the equipment's estimated economic useful lives. Management estimates the useful lives of these property, plant and equipment to be within 3 to 10 years. These are common life expectancies applied in the relevant industry. Changes in the expected level of usage and technological developments could impact the economic useful lives of these assets, therefore, future depreciation charges could be revised. The carrying amounts of the property, plant and equipment at the end of each reporting period are disclosed in Note 3 to the financial statements.

(ii) Impairment of loans and receivables

The Group assesses at the end of each reporting period whether there is any objective evidence that a financial asset is impaired. To determine whether there is objective evidence of impairment, the Group considers factors such as the probability of insolvency or significant financial difficulties of the debtor and default or significant delay in payments.

Where there is objective evidence of impairment, the amount and timing of future cash flows are estimated based on historical loss experience for assets with similar credit risk characteristics. The carrying amounts of the loans and receivables at the end of each reporting period are disclosed in Note 6 to the financial statements.



Notes to the Financial Statements

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2. Summary of significant accounting policies (Continued)

2.5 Significant accounting estimates and judgements (Continued)

(b) Critical judgement made in applying accounting policies

The following is the judgement made by management in the process of applying the Group's accounting policies that has the most significant effect on the amounts recognised in the financial statements.

Income taxes

Significant judgement is involved in determining the Group-wide provision for income taxes. There are certain transactions and computations for which the ultimate tax determination is uncertain during the ordinary course of business. The Group recognises liabilities for expected tax issues based on estimates of whether additional taxes will be due. Where the final tax outcome of these matters is different from the amounts that were initially recognised, such differences will impact the income tax and deferred tax provisions in the period in which such determination is made. The carrying amount of the Group's tax payable at 31 December 2010 was US\$326,473 (2009: Nil).

2.6 Basis of consolidation

The consolidated financial statements comprise the financial statements of the Company and its subsidiary as at the end of the reporting period. The financial statements of the subsidiary company used in the preparation of the consolidated financial statements are prepared for the same reporting date as the Company. Consistent accounting policies are applied to like transactions and events in similar circumstances. All intra-group balances, income and expenses and unrealised gains and losses resulting from intra-group transactions are eliminated in full.

Business combinations involving entities under common control are accounted for by applying the pooling of interest method. The assets and liabilities of the combining entities are reflected at their carrying amounts reported in the combined financial statements of the controlling holding company. No adjustments are made to reflect the fair values, or recognize any new assets or liabilities. No goodwill is recognized as a result of the combination. Any difference between the consideration paid/transferred and the equity acquired is reflected within the equity as merger reserve. The statement of comprehensive income reflects the results of the combining entities for the full year, irrespective of when the combination takes place. Comparatives are presented as if the entities had always been combined since the date the entities had common control.

Notes to the Financial Statements

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2. Summary of significant accounting policies (Continued)

2.7 Foreign currency

Transactions in foreign currencies are measured in the functional currencies of the Company and its subsidiary company and are recorded on initial recognition in the functional currency at exchange rates approximating those ruling at the transaction dates. Monetary assets and liabilities denominated in foreign currencies are translated at the closing rate of exchange ruling at the end of the reporting period. Non-monetary assets and liabilities measured in terms of historical cost in a foreign currency are translated using the exchange rates as at the date of initial transactions. Non-monetary items measured at fair value in a foreign currency are translated using the exchange rates at the date when the fair value was determined. Exchange differences arising on the settlement of monetary items or on translating monetary items at the end of the reporting period are recognised in profit or loss.

2.8 Property, plant and equipment

Property, plant and equipment are stated at cost less accumulated depreciation and any accumulated impairment loss. The initial cost of property, plant and equipment comprises its purchase price and any directly attributable costs of bringing the asset to its working condition and location for its intended use, any trade discounts and rebates are deducted in arriving at the purchase price. Expenditure incurred after the property, plant and equipment have been put into operation, such as repairs and maintenance and overhaul costs, is normally charged to profit or loss in the period in which the costs are incurred. In situations where it can be clearly demonstrated that the expenditure has resulted in an increase in the future economic benefits expected to be obtained from the use of an item of fixed assets beyond its originally assessed standard of performance, the expenditure is capitalised as an additional cost of property, plant and equipment.

Depreciation is provided on all property, plant and equipment at the following rates calculated to write off the cost of each asset on a straight-line basis over its estimated useful life.

Computers	–	3 years
Office equipment	–	3 years
Furniture and fittings	–	3 years
Renovation	–	5 years
Plant and machinery	–	5 – 10 years
Factory equipment	–	3 years

The residual values, useful life and depreciation method are reviewed at each financial year-end to ensure that the amount, method and period of depreciation are consistent with previous estimates and the expected pattern of consumption of the future economic benefits embodied in the items of property, plant and equipment.



Notes to the Financial Statements

31 DECEMBER 2010

2. Summary of significant accounting policies (Continued)

2.8 Property, plant and equipment (Continued)

An item of property, plant and equipment is derecognised upon disposal or when no future economic benefits are expected from its use or disposal. Any gain or loss on derecognition of the asset is included in profit or loss in the year the asset is derecognised.

2.9 Impairment of non-financial assets

The Group assesses at each reporting date whether there is an indication that an asset may be impaired. If any such indication exists, or when annual impairment assessment for an asset is required, the Group makes an estimate of the asset's recoverable amount.

An asset's recoverable amount is the higher of an asset's or cash-generating unit's ("CGU") fair value less costs to sell and its value in use and is determined for an individual asset, unless the asset does not generate cash inflows that are largely independent of those from other assets or group of assets. In assessing value in use, the estimated future cash flows are discounted to their present value using a pre-tax discount rate that reflects current market assessment of the time value of money and the risks specific to the asset. In determining fair value less costs to sell, an appropriate valuation model is used. These calculations are corroborated by valuation multiples, quoted share prices for public traded securities or other available fair value indicators. Where the carrying amount of an asset or CGU exceeds its recoverable amount, the asset is considered impaired and is written down to its recoverable amount.

Impairment losses are recognised in profit or loss except for assets that are previously revalued where the revaluation was taken to other comprehensive income. In this case the impairment is also recognised in other comprehensive income up to the amount of any previous revaluation. An assessment is made at each reporting date as to whether there is any indication that previously recognised impairment losses may no longer exist or may have decreased. If such indication exists, the Group estimates the asset's or CGU's recoverable amount. A previously recognised impairment loss is reversed only if there has been a change in the estimates used to determine the asset's recoverable amount since the last impairment loss was recognised. If that is the case, the carrying amount of the asset is increased to its recoverable amount. That increase cannot exceed the carrying amount that would have been determined, net of depreciation, had no impairment loss been recognised previously. Such reversal is recognised in profit or loss unless the asset is measured at revalued amount, in which case the reversal is treated as a revaluation increase.

Notes to the Financial Statements

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2. Summary of significant accounting policies (Continued)

2.10 Financial assets

Financial assets are recognised on the balance sheet when, and only when, the Group becomes a party to the contractual provisions of the financial instrument.

Non-derivative financial assets with fixed or determinable payments that are not quoted in an active market are classified as loans and receivables. Subsequent to initial recognition, loans and receivables are measured at amortised cost using the effective interest method, less impairment. Gains and losses are recognised in profit or loss when the loans and receivables are derecognised or impaired, and through the amortisation process.

2.11 Cash and cash equivalents

Cash and cash equivalents comprise cash and bank balances and fixed deposits which are subject to an insignificant risk of changes in value.

Cash and bank balances as well as short term deposits carried in the balance sheet are accounted for as loans and receivables under FRS 39. The accounting policy for this category of financial assets is stated in Note 2.10.

2.12 Trade and other debtors

Trade and other debtors are classified and accounted for as loans and receivables under FRS 39. The accounting policy for this category of financial assets is stated in Note 2.10.

An allowance is made for uncollectible amounts when there is objective evidence that the Company will not be able to collect the debt. Bad debts are written off when identified. Further details on the accounting policy for impairment of financial assets are stated in Note 2.13.

2.13 Impairment of financial assets

The Group assesses at the end of each reporting period whether there is any objective evidence that a financial asset or group of financial assets is impaired.

If there is objective evidence that an impairment loss on financial assets carried at amortised cost has been incurred, the amount of the loss is measured as the difference between the asset's carrying amount and the present value of estimated future cash flows (excluding future credit losses that have not been incurred) discounted at the financial asset's original effective interest rate (i.e. the effective interest rate computed at initial recognition). If a loan has a variable interest rate, the discount rate for measuring any impairment loss is the current effective interest rate. The carrying amount of the asset is reduced through the use of an allowance account. The amount of the loss is recognised in profit or loss.



Notes to the Financial Statements

31 DECEMBER 2010

2. Summary of significant accounting policies (Continued)

2.13 Impairment of financial assets (Continued)

If, in subsequent period, the amount of the impairment loss decreases and the decrease can be related objectively to an event occurring after the impairment was recognised, the previously recognised impairment loss is reversed. Any subsequent reversal of an impairment loss is recognised in profit or loss, to the extent that the carrying value of the asset does not exceed its amortised cost at the reversal date.

2.14 Derecognition of financial assets

A financial asset is derecognised when the contractual rights to receive cash flows from the asset have expired.

On derecognition of a financial asset in its entirety, the difference between the carrying amount and the sum of (a) the consideration received (including any new asset obtained less any new liability assumed) and (b) any cumulative gain or loss that has been recognised directly in other comprehensive income is recognised in profit or loss.

2.15 Inventories

Inventories are stated at the lower of cost and net realisable value. Cost is determined on a first-in-first-out basis.

Where necessary, allowance is provided for damaged, obsolete and slow moving items to adjust the carrying value of inventories to the lower of cost and net realisable value.

Net realisable value is the estimated selling price in the ordinary course of business, less estimated costs of completion and estimated costs necessary to make the sale.

2.16 Financial liabilities

Financial liabilities are recognised on the balance sheet when, and only when, the Group becomes a party to the contractual provisions of the financial instrument.

Financial liabilities are recognised initially at fair value, plus, in the case of financial liabilities other than derivatives, directly attributable transaction costs.

A financial liability is derecognised when the obligations under liability is discharged or cancelled or expires. When an existing financial liability is replaced by another from the same lender on substantially different terms, or the terms of an existing liability are substantially modified, such an exchange or modification is treated as a derecognition of the original liability and the recognition of a new liability, and the difference in the respective carrying amounts is recognised in profit or loss.

Notes to the Financial Statements

31 DECEMBER 2010



2. Summary of significant accounting policies (Continued)

2.17 Trade and other payables

Liabilities for trade and other creditors, which are usually settled on 30-90 day terms are initially recognised at fair value and subsequently measured at amortised cost using the effective interest method.

Gains and losses are recognised in profit or loss when the liabilities are derecognised as well as through the amortisation process.

2.18 Provisions

Provisions are recognised when the Group has a present obligation (legal or constructive) where, as a result of a past event, it is probable that an outflow of economic resources will be required to settle the obligation and the amount of the obligation can be estimated reliably.

Provisions are reviewed at the end of each reporting period and adjusted to reflect the current best estimate. If it is no longer probable that an outflow of economic resources will be required to settle the obligation, the provision is reversed. If the effect of the time value of money is material, provisions are discounted using a current pre-tax rate that reflects, where appropriate, the risks specific to the liability. When discounting is used, the increase in the provision due to the passage of time is recognised as a finance cost.

2.19 Interest bearing loans and borrowings

All loans and borrowings are initially recognised at the fair value of the consideration received less directly attributable transaction costs.

After initial recognition, interest-bearing loans and borrowings are subsequently measured at amortised cost using the effective interest method.

Gains and losses are recognised in profit or loss when the liabilities are derecognised as well as through the amortisation process.

2.20 Borrowing costs

Borrowing costs are capitalised as part of the cost of a qualifying asset if they are directly attributable to the acquisition, construction or production of that asset. Capitalisation of borrowing costs commences when the activities to prepare the asset for its intended use or sale are in progress and the expenditures and borrowing costs are incurred. Borrowing costs are capitalised until the assets are substantially completed for their intended use or sale. All other borrowing costs are expensed in the period they occur. Borrowing costs consist of interest and other costs that an entity incurs in connection with the borrowing of funds.



Notes to the Financial Statements

31 DECEMBER 2010

2. Summary of significant accounting policies (Continued)

2.21 Leases

The determination of whether an arrangement is, or contains a lease is based on the substance of the arrangement at inception date: whether fulfillment of the arrangement is dependent on the use of a specific asset or assets or the arrangement conveys a right to use the asset. For arrangements entered into prior to 1 January 2005, the date of inception is deemed to be 1 January 2005 in accordance with the transitional requirements of INT FRS 104.

As lessee

Finance leases, which effectively transfer to the Group substantially all the risks and rewards incidental to ownership of the leased item, are capitalised at the inception of the lease at the fair value of the leased asset or, if lower, at the present value of the minimum lease payments. Any initial direct costs are also added to the amount capitalised. Lease payments are apportioned between the finance charges and reduction of the lease liability so as to achieve a constant rate of interest on the remaining balance of the liability. Finance charges are charged to profit or loss. Contingent rents, if any, are charged as expenses in the periods in which they are incurred.

Capitalised leased assets are depreciated over the shorter of the estimated useful life of the asset and the lease term, if there is no reasonable certainty that the Group will obtain ownership by the end of the lease term.

Operating lease payments are recognised as an expense in profit or loss on a straight-line basis over the lease term. The aggregate benefit of incentives provided by the lessor is recognised as a reduction of rental expense over the lease term on a straight-line basis.

2.22 Employees benefits

(a) *Defined contribution plan*

The Group makes contributions to the Central Provident Fund ("CPF") scheme in Singapore, a defined contribution pension scheme. Contributions to defined contribution pension schemes are recognised as compensation expenses in the period in which the related service is performed.

(b) *Employee leave entitlement*

Employee entitlements to annual leave are recognised as a liability when they accrue to employees. The estimated liability for leave is recognised for services rendered by employees up to balance sheet date.

Notes to the Financial Statements

31 DECEMBER 2010



2. Summary of significant accounting policies (Continued)

2.23 Taxes

(a) Current income tax

Current income tax assets and liabilities for the current and prior periods are measured at the amount expected to be recovered from or paid to the taxation authorities. The tax rates and tax laws used to compute the amount are those that are enacted or substantially enacted by the end of the reporting period, in the country where the Group operates and generates taxable income.

Current income taxes are recognised in profit or loss except to the extent that the tax relates to items recognised outside profit or loss, either in other comprehensive income or directly in equity. Management periodically evaluates positions taken in the tax returns with respect to situations in which applicable tax regulations are subject to interpretations and establishes provisions where appropriate.

(b) Deferred tax

Deferred tax is provided using the liability method on temporary differences at the end of the reporting period between the tax bases of assets and liabilities and their carrying amounts for financial reporting purposes.

Deferred tax liabilities are recognised for all temporary differences, except:

- where the deferred tax liability arises from the initial recognition of goodwill or of an asset or liability in a transaction that is not a business combination and, at the time of the transaction affects neither the accounting profit nor taxable profit or loss; and
- in respect of taxable temporary differences associated with investments in subsidiaries, associates and interests in joint ventures, where the timing of the reversal of the temporary differences can be controlled and it is probable that the temporary differences will not reverse in the foreseeable future.



Notes to the Financial Statements

31 DECEMBER 2010

2. Summary of significant accounting policies (Continued)

2.23 Taxes (Continued)

(b) *Deferred tax* (Continued)

Deferred tax assets are recognised for all deductible temporary differences carry forward of unused tax credits and unused tax losses, to the extent that it is probable that taxable profit will be available against which the deductible temporary differences, and the carry forward of unused tax credits and unused tax losses can be utilised except:

- where the deferred tax asset relating to the deductible temporary difference arises from the initial recognition of an asset or liability in a transaction that is not a business combination and, at the time of the transaction, affects neither the accounting profit nor taxable profit or loss; and
- in respect of deductible temporary difference associated with investments in subsidiaries, associates and interests in joint ventures, deferred income tax assets are recognised only to the extent that it is probable that the temporary differences will reverse in the foreseeable future and taxable profits will be available against which the temporary difference can be utilised.

The carrying amount of deferred tax asset is reviewed at the end of each reporting period and reduced to the extent that it is no longer probable that sufficient taxable profit will be available to allow all or part of the deferred tax asset to be utilised. Unrecognised deferred tax assets are reassessed at the end of each reporting period and are recognised to the extent that it has become probable that future taxable profit will allow the deferred tax asset to be utilised.

Deferred tax assets and liabilities are measured at the tax rates that are expected to apply to the year when the asset is realised or the liability is settled, based on tax rates and tax laws that have been enacted or substantively enacted at the end of each reporting period.

Deferred tax relating to items recognised outside profit or loss is recognised outside profit or loss. Deferred tax items are recognised in correlation to the underlying transaction either in other comprehensive income or directly in equity and deferred tax arising from a business combination is adjusted against goodwill on acquisition.

Deferred tax assets and deferred tax liabilities are offset, if a legally enforceable right exists to set off current income tax assets against current income tax liabilities and the deferred income taxes relates to the same taxable entity and the same taxation authority.

Notes to the Financial Statements

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2. Summary of significant accounting policies (Continued)

2.23 Taxes (Continued)

(c) Sales tax

Revenues, expenses and assets are recognised net of the amount of sales tax except:

- Where the sales tax incurred in a purchase of assets or services is not recoverable from the taxation authority, in which case the sales tax is recognized as part of the cost of acquisition of the asset or as part of the expense item as applicable; and
- Receivables and payables that are stated with the amount of sales tax included.

The net amount of sales tax recoverable from, or payable to, the taxation authority is included as part of receivables or payables in the balance sheet.

2.24 Revenue recognition

Revenue from sale of goods is recognised when significant risks and rewards of ownership of the goods have been transferred to the buyer.

Interest income is recognised using the effective interest method.

2.25 Government grants

Government grants are recognised at their fair value where there is reasonable assurance that the grant will be received and all attaching conditions will be complied with. Where the grant relates to an asset, the fair value is recognised as deferred capital grant on the balance sheet and is amortised to profit or loss over the expected useful life of the relevant asset by equal annual instalments.

2.26 Segment reporting

Operating segments are reported in a manner consistent with the internal reporting provided to the executive committee whose members are responsible for allocating resources and assessing performance of the operating segments.

2.27 Share capital and share issue expenses

Proceeds from issuance of ordinary shares are recognised as share capital in equity. Incremental costs directly attributable to the issuance of ordinary shares are deducted against share capital.



Notes to the Financial Statements

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3. Property, plant and equipment

Group Cost	Computers US\$		Office equipment US\$		Furniture and fittings US\$		Renovation US\$		Plant and machinery US\$		Factory equipment US\$		Total US\$	
At 1 January 2009	97,278	80,906	33,550	404,117	10,256,333	51,515	10,923,699							
Additions	11,515	9,509	-	89,154	24,902	-	135,080							
Written off	(2,586)	(1,752)	(7)	-	(15,004)	(42)	(19,391)							
At 31 December 2009 and 1 January 2010	106,207	88,663	33,543	493,271	10,266,231	51,473	11,039,388							
Additions	19,051	-	32,714	14,524	2,319,779	10,736	2,396,804							
Written off	-	-	-	-	-	-	-							
At 31 December 2010	125,258	88,663	66,257	507,795	12,586,010	62,209	13,436,192							
Accumulated depreciation														
At 1 January 2009	31,937	38,846	14,867	111,507	1,901,507	8,890	2,107,554							
Charge for the year	33,695	27,088	10,128	96,608	1,034,431	17,168	1,219,118							
Written off	(1,548)	(1,709)	(7)	-	(9,253)	(31)	(12,548)							
At 31 December 2009 and 1 January 2010	64,084	64,225	24,988	208,115	2,926,685	26,027	3,314,124							
Charge for the year	31,247	17,935	10,979	113,818	1,191,212	19,009	1,384,200							
Written off	-	-	-	-	-	-	-							
At 31 December 2010	95,331	82,160	35,967	321,933	4,117,897	45,036	4,698,324							
Net book value														
At 31 December 2010	29,927	6,503	30,290	185,862	8,468,113	17,173	8,737,868							
At 31 December 2009	42,123	24,438	8,555	285,156	7,339,546	25,446	7,725,264							

Assets pledged as security

The Group's plant and machinery with carrying amounts of approximately US\$5,186,400 (2009: US\$5,925,857) are subject to a fixed charge as security for bank facilities (Note 10).

Notes to the Financial Statements

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4. Investment in subsidiary

	Company	
	2010 US\$	2009 US\$
Issuance of shares pursuant to restructuring exercise	7,197,408	–

Name	Country of incorporation	Principal activities	Proportion (%) of ownership interest	
			2010	2009
Smartflex Technology Pte Ltd	Singapore	Assembly and testing of Smartcard IC modules	100	–

5. Inventories

	Group	
	2010 US\$	2009 US\$
Balance sheet:		
At cost:		
Raw materials	1,055,428	469,408
Consumables	82,852	70,040
Spare parts	67,714	78,990
Finished goods	44,142	–
	1,250,136	618,438
Statement of comprehensive income:		
Inventories recognised as an expense in cost of sales	17,198,982	11,136,107
Inclusive of writeback of allowance for inventory obsolescence	–	(758)



Notes to the Financial Statements

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6. Trade and other receivables

	Group	
	2010 US\$	2009 US\$
Trade receivables	3,754,235	3,136,879
GST recoverable	129,958	3,374
	3,884,193	3,140,253
Deposits	41,131	36,525
Total trade and other receivables	3,925,324	3,176,778
Add: Cash and bank balances	2,847,624	1,904,984
Total loans and receivables	6,772,948	5,081,762

Included in the trade and other receivables at 31 December are the following foreign currency denominated balances:–

	Group	
	2010 US\$	2009 US\$
Singapore dollar	–	40,186

Trade receivables

Trade receivables are non-interest bearing and are generally on 30 to 45 days' terms. They are recognised at their original amounts which represent their fair values on recognition.

Notes to the Financial Statements

31 DECEMBER 2010



6. Trade and other receivables (Continued)

Receivables that are past due but not impaired

The Group has trade receivables amounting to US\$630,734 (2009: US\$553,346) that are past due date at the end of the reporting period but not impaired. These receivables are unsecured and the analysis of their ageing at the end of the reporting period is as follows:

	Group	
	2010 US\$	2009 US\$
Trade receivables past due:		
Less than 30 days	630,734	543,864
30 to 60 days	-	9,482
61-90 days	-	-
More than 90 days	-	-
	630,734	553,346

Receivables that are impaired

The Group does not have any receivables that are impaired as at 31 December 2010 and 2009.

7. Cash and cash equivalents

	Group		Company	
	2010 US\$	2009 US\$	2010 US\$	2009 US\$
Cash at banks and in hand	2,847,624	1,904,984	7,126	-

Included in cash and cash equivalents at 31 December are the following foreign currency denominated balances:-

	Group		Company	
	2010 US\$	2009 US\$	2010 US\$	2009 US\$
Singapore dollar	963,355	374,046	7,126	-
Euro	4,766	5,141	-	-



Notes to the Financial Statements

31 DECEMBER 2010

8. Trade payables

	Group	
	2010 US\$	2009 US\$
Trade payables	1,308,034	1,539,531
Deposits received and other payables (Note 9)	51,095	16,176
Loans and borrowings (Note 10)	2,680,014	3,402,734
Total financial liabilities carried at amortised cost	4,039,143	4,958,441

Trade payables denominated in foreign currencies included in the Group's trade creditors at 31 December are as follows:-

	Group	
	2010 US\$	2009 US\$
Singapore dollar	83,954	118,417
Euro	118,051	134,994

9. Other payables and accruals

	Group		Company	
	2010 US\$	2009 US\$	2010 US\$	2009 US\$
Accruals	745,744	480,689	74,875	-
Deposits received and other payables	51,095	16,176	-	-
Deferred capital grants (current)	-	2,262	-	-
	796,839	499,127	74,875	-

Notes to the Financial Statements

31 DECEMBER 2010



10. Loans and borrowings

		Group		
	Maturity	2010	2009	1 January
			(restated)	2009
		US\$	US\$	(restated)
		<u>US\$</u>	<u>US\$</u>	<u>US\$</u>
Bank loans (current):				
– Euro loan	2010	278,766	441,204	564,518
– USD loans	2010	1,832,363	2,863,446	3,877,032
– USD trust receipts payable to banks	2010	568,885	–	1,948,708
– Euro trust receipts payable to banks	2010	–	98,084	226,024
		<u>2,680,014</u>	<u>3,402,734</u>	<u>6,616,282</u>

Included in the USD denominated loans is a loan secured by a fixed charge over the plant and machinery. The loans which are at floating rates bear interest ranging from 1.24% to 2.32% (2009: 2.77% to 6.075%) per annum.

During the financial year ended 31 December 2010, the Group reclassified all bank loans from non-current liabilities to current liabilities.

In addition to the basic loan terms and specific clauses defining default events, the above bank loans also include an overriding repayment on demand clause which gives the lender the right to demand repayment at any time at their sole discretion irrespective of whether a default event has occurred. The bank loans were not scheduled for repayment within twelve months after 31 December 2009. As such, the bank loans were classified as non-current liabilities as at 31 December 2009 based on the scheduled repayment dates in the loan facility agreements.

In December 2010, the Institute of Certified Public Accountants of Singapore issued guidance on classification of callable term loan (the “guidance”). The guidance clarified that callable term loans should be classified as current in their entirety in the balance sheet as the entity does not have the unconditional right as at the reporting date to defer settlement for at least twelve months after the reporting date. Accordingly, the Group reclassified the above bank loans to current liabilities as at 31 December 2010 and the prior year’s comparative figures have been restated. The reclassification has no effect on the net asset or the results of the Group.



Notes to the Financial Statements

31 DECEMBER 2010

11. Deferred tax liability

	Group	
	2010 US\$	2009 US\$
Deferred tax liability	1,111,548	860,503
This can be analysed as follows:-		
Differences in depreciation for tax purposes	1,119,251	867,605
Provision for accrued leave	(7,703)	(7,102)
	1,111,548	860,503

Tax consequence of proposed dividends

There are no income tax consequences (2009: nil) attached to the dividends to the shareholders proposed by the Company but not recognised as a liability in the financial statements (Note 23).

12. Share capital

	Group			
	2010	2010	2009	2009
	No. of shares '000	US\$	No. of shares '000	US\$
At 1 January	69,440	7,197,408	69,440	7,197,408
Issuance of new shares pursuant to the IPO	13,000	2,043,121	–	–
Share issuance expense	–	(115,001)	–	–
At 31 December	82,440	9,125,528	69,440	7,197,408

	Company	
	2010	2010
	No. of shares '000	US\$
At 17 February 2010, date of incorporation	–	*
Issuance of new shares pursuant to restructuring exercise	69,440	7,198,408
Issuance of new shares pursuant to the IPO	13,000	2,043,121
Shares issuance expense	–	(115,001)
At 31 December	82,440	9,126,528

* Amount less than US\$2

The holders of ordinary shares are entitled to receive dividends as and when declared by the Company. All ordinary shares carry one vote per share without restriction. The ordinary shares have no par value.

Notes to the Financial Statements

31 DECEMBER 2010



13. Merger reserve

Merger reserve represents the difference between the nominal value of shares issued by the Company in exchange for the paid-in capital of the acquisition of Smartflex Technology Pte Ltd which is accounted for under the pooling of interest method of accounting.

14. Revenue

	Group	
	2010 US\$	2009 US\$
Sale of goods	<u>26,834,314</u>	<u>18,102,441</u>

15. Other operating income

	Group	
	2010 US\$	2009 US\$
Finance income	354	407
Other income	2,262	2,678
Income from Jobs Credit Scheme	7,288	97,635
	<u>9,904</u>	<u>100,720</u>

16. Finance expense

	Group	
	2010 US\$	2009 US\$
Interest expense on bank loans	<u>62,312</u>	<u>131,982</u>



Notes to the Financial Statements

31 DECEMBER 2010

17. Profit before taxation

The following items have been included in arriving at profit before taxation:

	Group	
	2010 US\$	2009 US\$
Depreciation of property, plant and equipment	1,384,200	1,219,118
Property, plant and equipment written off	–	6,843
(Writeback of)/allowance for inventory obsolescence	–	(758)
Rental expense – operating lease	237,895	214,826
IPO expenses	626,990	–
Exchange differences, net	(117,264)	33,725
Personnel and related costs		
– salaries and bonus	3,200,429	2,230,431
– directors' fees	11,630	–
– employer's contributions to Central Provident Fund	173,063	147,696

18. Taxation

(a) Major components of income tax expense

The major components of income tax expense for the years ended 31 December are:–

	Group	
	2010 US\$	2009 US\$
Current income tax:		
Current income taxation	326,473	–
	326,473	–
Deferred income tax:		
Origination and reversal of temporary differences	251,045	396,585
Effect of reduction in tax rate	–	(27,430)
	251,045	369,155
Income tax expense recognised in the statement of comprehensive income	577,518	369,155

Notes to the Financial Statements

31 DECEMBER 2010



18. Taxation (Continued)

(b) Relationship between tax expense and accounting profit

A reconciliation between the tax expense and the product of accounting profit multiplied by the applicable tax rate for the years ended 31 December are as follows:–

	Group	
	2010 US\$	2009 US\$
Accounting profit before income tax	<u>2,635,363</u>	<u>2,292,990</u>
Tax expense on profit before taxation at 17% (2009: 17%)	448,012	389,808
Income not subject to tax	(5,056)	(17,053)
Non-deductible expenses	159,515	22,667
Effect of partial tax exemption	(19,053)	–
Effect of tax rate change	–	(27,430)
Others	(5,900)	1,163
Tax expense	<u>577,518</u>	<u>369,155</u>

19. Earnings per share

Basic earnings per share is calculated by dividing profit for the year, net of tax, attributable to shareholders by the weighted average number of ordinary shares outstanding during the financial year.

Diluted earnings per share is calculated by dividing profit for the year, net of tax, attributable to shareholders by the weighted average number of ordinary shares outstanding during the financial year plus the weighted average number of ordinary shares that would be issued on the conversion of all the dilutive potential ordinary shares into ordinary shares.

The following tables reflect the profit and share data used in the computation of basic and diluted earnings per share for the years ended 31 December:

	Group	
	2010 US\$	2009 US\$
Profit net of tax attributable to shareholders	<u>2,057,845</u>	<u>1,923,835</u>
	Number of shares '000	Number of shares '000
Weighted average number of ordinary shares for basic and diluted earnings per share computation	<u>75,940</u>	<u>69,440</u>



Notes to the Financial Statements

31 DECEMBER 2010

20. Segment information

For management purposes, the Group is organised as a single operating segment entity as it is principally engaged in the fabrication and packaging of smart card chip modules. The management of the Group regularly reviews the segment result in order to allocate resource and assess the segment performance.

Geographical Information

Revenue based on geographical locations of customers for the years ended 31 December 2010 and 2009 are as follows:

(a) Revenue

	2010		2009	
	US\$'000	%	US\$'000	%
Europe	5,391	20	4,606	25
East Asia	7,691	28	5,073	28
South Asia	13,644	51	8,261	46
Others	108	1	162	1
Total	26,834	100	18,102	100

(b) Non-current assets

Non-current assets of US\$8,737,868 (2009: US\$7,725,264) which consist of property, plant and equipment are located in South Asia for the year ended 31 December 2010.

(c) Information about major customers

Revenues from three customers of the Group's single segment represent approximately US\$16,269,555 of the Group's total revenues. These customers are located in East Asia, South Asia and Europe respectively.

Notes to the Financial Statements

31 DECEMBER 2010



21. Related party transactions

	Group	
	2010	2009
	US\$	US\$
(a) Sales and purchases of goods and services		
Related party:		
Rental expense paid to a company related to a director	228,573	206,492
Utilities expense	369,389	240,615
(b) Compensation of key management personnel		
Short-term employee benefits	232,652	189,245
Central provident fund contributions	9,411	13,802
	242,063	203,047
<i>Comprise amounts paid to:</i>		
Directors of the Company	242,063	203,047

22. Commitments

Operating lease commitments

At the end of the reporting period, the Group has outstanding rental commitments for premises under non-cancellable operating leases falling due as follows:

	Group	
	2010	2009
	US\$	US\$
Not later than 1 year	127,828	229,734
Later than 1 year but not later than 5 years	3,977	121,051
Later than 5 years	-	-

The leases typically run for an initial tenure of between one to five years. Certain leases include options to renew the leases after the expiry of the initial leases. The leases contain escalation clauses but there are no restrictions placed upon the Group by entering into these leases.



Notes to the Financial Statements

31 DECEMBER 2010

23. Dividends

	Group		Company	
	2010 US\$	2009 US\$	2010 US\$	2009 US\$
Declared and paid during the financial year				
Final exempt (one-tier) dividend for 2010 of S\$2.5 cents per ordinary share	617,012	–	–	–
Proposed but not recognised as a liability as at 31 December:				
<i>Dividends on ordinary shares, subject to shareholders approval at the AGM</i>				
Final exempt (one-tier) dividend for 2010 of S\$1 cent per ordinary shares	639,040	–	639,040	–

24. Financial risk management objectives and policies

The Group's principal financial instruments comprise bankers' guarantees, bank loans, cash and short term deposits. The main purpose of these financial instruments is to finance the Group's operations. All financial transactions with the banks are governed by banking facilities duly accepted with Board of Directors resolutions with banking mandates which define the permitted financial instruments and facilities limits, approved by the Board of Directors. All financial transactions require dual signatories. The Group has various other financial assets and liabilities such as trade receivables and trade payables, which arise directly from its operations. The Group does not hold any foreign exchange forward contracts for trading or speculative purposes.

The main risks arising from the Group's financial instruments are foreign currency risk, credit risk, interest rate risk and liquidity risk. The management reviews and agrees policies and procedures for managing each of these risks.

The following sections provide details regarding the Group's exposure to the above-mentioned financial risks and the objectives, policies and processes for the management of these risks.

There has been no change to the Group's exposure to these financial risks or the manner in which it manages and measures the risks.

Notes to the Financial Statements

31 DECEMBER 2010



24. Financial risk management objectives and policies (Continued)

Foreign currency risk

The Group's exposure to foreign exchange risk mainly arises from cash flows from anticipated transactions denominated in foreign currencies. The Group's policy is to use appropriate financial instruments to hedge foreign currency risk with the objective of limiting the effects of changes in foreign currency fluctuations.

Sensitivity analysis for foreign currency risk

The following table demonstrates the sensitivity of 1% (2009: 1%) change in SGD and EUR, with all other variables held constant, on the Group's profit after taxation.

		Group	
		2010	2009
		US\$	US\$
		Profit	Profit
		after tax	after tax
		<hr/>	<hr/>
Against USD			
SGD	Strengthened	2,118	590
	Weakened	(2,118)	(590)
EUR	Strengthened	(3,254)	(5,554)
	Weakened	3,254	5,554
		<hr/>	<hr/>

Credit risk

Credit risk is the risk of loss that may arise on outstanding financial instruments should a counterparty default on its obligations. The Group's exposure to credit risk arises primarily from trade receivables. For other financial assets, the Group minimises credit risk by dealing exclusively with high credit rating counterparties.

In the aspect of credit risk arising from the inability of customers of the Company to make payments when their receivables fall due, it is the Group's policy to provide credit terms to creditworthy and reputable customers. These receivables are continually monitored on an ongoing basis to ensure that issues arising from non-collectibility are minimised. Therefore, the Group does not expect material credit losses on its debts with customers.



Notes to the Financial Statements

31 DECEMBER 2010

24. Financial risk management objectives and policies (Continued)

Credit risk (Continued)

Exposure to credit risk

The Group's maximum exposure to credit risk, in the event that the counter-parties to the transactions with the Group fail to perform their obligations as of the end of the reporting period in relation to each class of recognised financial assets, is the carrying amount of those assets as indicated in the balance sheet, and is generally limited to the amounts, if any, by which the counter-parties' obligations exceed the obligations of the Group.

Credit risk concentration profile

The Group determines concentrations of credit risk by monitoring the country segments profile of its trade receivables on an on-going basis. The credit risk concentration profile of the Group's trade at the end of the reporting period is as follows:

	2010		2009	
	US\$	% of total	US\$	% of total
By geographical segments:				
South Asia	1,531,672	51	2,351,005	75
East Asia	1,335,564	29	178,196	6
Europe	883,466	20	607,237	19
Others	3,533	0	441	0
Total	3,754,235	100	3,136,879	100

Financial assets that are neither past due nor impaired

Trade and other receivables that are neither past due nor impaired are creditworthy debtors with good payment record with the Group. Cash and bank balances are placed with or entered into a reputable financial institution with a high credit rating and no history of default.

Financial assets that are either past due or impaired

Information regarding financial assets that are either past due or impaired is disclosed in Note 6.

Notes to the Financial Statements

31 DECEMBER 2010



24. Financial risk management objectives and policies (Continued)

Interest rate risk

Interest rate risk is the risk that the fair value or future cash flows of the Group's financial instruments will fluctuate because of changes in market interest rates. The Group's exposure to interest rate risk arises primarily from their interest-bearing loans and bank deposits.

Sensitivity analysis for interest rate risk

The following table demonstrates the sensitivity to 1% (2009: 1%) change in the interest rates lower/higher with all other variables held constant on the Group's profit after tax.

	2010	2009
	US\$	US\$
	Profit after tax	Profit after tax
Increase in 1% interest rate	(401)	(1,337)
Decrease in 1% interest rate	401	1,337

Liquidity risk

Liquidity risk is the risk that the Group will encounter difficulty in meeting financial obligations due to shortage of funds. The Group's exposure to liquidity risk arises primarily from mismatches of the maturities of financial assets and liabilities. The Group's objective is to maintain a balance between continuity of funding and flexibility through the use of stand-by credit facilities.

The Group monitors and maintains sufficient cash and availability of funding through committed credit facilities and continued financial support from shareholders to meet its liquidity requirements.

At the end of the reporting period, all (2009: 37%) of the Group's loans and borrowings (Note 10) will mature in less than one year based on the carrying amount reflected in the financial statements.



Notes to the Financial Statements

31 DECEMBER 2010

24. Financial risk management objectives and policies (Continued)

Liquidity risk (Continued)

Analysis of financial instruments by remaining contractual maturities

The table below summarizes the maturity profile of the Group's financial assets and liabilities at the end of the reporting period based on contractual undiscounted repayments obligations.

Group	2010			2009		
	One year or less US\$	One to five years US\$	Over five years US\$	One year or less US\$	One to five years US\$	Over five years US\$
Financial assets:						
Trade and other receivables	3,925,324	-	-	3,176,778	-	-
Cash and cash equivalents	2,847,624	-	-	1,904,984	-	-
Total undiscounted financial assets	6,772,948	-	-	5,081,762	-	-
Financial liabilities:						
Trade payables	1,308,034	-	-	1,539,531	-	-
Other payables	51,095	-	-	16,176	-	-
Loans and borrowings	2,680,014	-	-	3,402,734	-	-
Total undiscounted financial liabilities	4,039,143	-	-	4,958,441	-	-
Total net undiscounted financial assets/(liabilities)	2,733,805	-	-	123,321	-	-
						123,321

Notes to the Financial Statements

31 DECEMBER 2010



24. Financial risk management objectives and policies (Continued)

Liquidity risk (Continued)

	2010			Total US\$
	One year or less US\$	One to five years US\$	Over five years US\$	
Company				
Financial assets:				
Cash and cash equivalents	7,126	–	–	7,126
Amounts owing from subsidiary	1,233,510	–	–	1,233,510
Total undiscounted financial assets	1,240,636	–	–	1,240,636

25. Fair values

The fair value of a financial instrument is the amount at which the instrument could be exchanged or settled between knowledgeable and willing parties in an arm's length transaction, other than in a forced or liquidation sale.

Financial instruments whose carrying amount approximate fair value

Management has determined that the carrying amounts of cash and short-term deposits, trade and other receivables, trade and other payables, and bank loans at floating rates, based on their notional amounts, reasonably approximate their fair values because these are mostly short term in nature or are repriced frequently.



Notes to the Financial Statements

31 DECEMBER 2010

26. Capital management

The primary objective of the Group's capital management is to ensure that it maintains a strong credit rating and healthy capital ratios in order to support its business and maximise shareholder value.

The Group manages its capital structure and makes adjustments to it, in light of changes in economic conditions. To maintain or adjust the capital structure, the Group may adjust the dividend payment to shareholders, return capital to shareholders or issue new shares. No changes were made in the objectives, policies or processes during the years ended 31 December 2010 and 31 December 2009.

The Group monitors capital using a gearing ratio, which is gross debt divided by total shareholder's funds. The Group is required to comply with the financial covenants imposed by its bankers which require the subsidiary company to have a gearing ratio not exceeding 150% (2009: 150%) and net worth not less than SGD4,000,000 (2009: SGD4,500,000). The Group includes within net debt, loans and borrowings less cash and cash equivalents. Capital includes equity attributable to the equity holders of the Company.

The Group will continue to be guided by prudent financial policies of which gearing is an important aspect.

	Group	
	2010	2009
	US\$	US\$
Total gross debt:		
Loans and borrowings	2,680,014	3,402,734
Shareholders' funds:		
Share capital	9,125,528	7,197,408
Revenue reserves	6,429,230	4,988,397
Merger reserve	(4,988,397)	(4,988,397)
	10,566,361	7,197,408
Gross debt equity ratio	0.25	0.47
Cash and cash equivalents	2,847,624	1,904,984
Less: Total gross debt	(2,680,014)	(3,402,734)
Net asset/(debt) position	167,610	(1,497,750)

Notes to the Financial Statements

31 DECEMBER 2010



27. Events occurring after balance sheet date

The Productivity and Innovation Credit ("PIC") Scheme first introduced in the Singapore 2010 budget has been enhanced in the Singapore 2011 budget on 18 February 2011. Under the enhanced PIC Scheme, the tax benefits on the qualifying activities have been raised upwards from 250% on a cap of SGD300,000 to 400% on a cap of SGD400,000 of the qualifying expenditure effective from year of assessments 2011 to 2015.

In accordance with FRS12 Income taxes and FRS10 Events after the Balance Sheet Date, this is a non-adjusting subsequent event and the financial effect of the change will be reflected in the financial year ended 31 December 2011. The Group is currently assessing the financial effect of the above change.

28. Authorisation of financial statements

The audited financial statements as at and for the financial year ended 31 December 2010 were authorised for issue in accordance with a resolution of directors on 21 March 2011.



Shareholdings Statistics

AS AT 15 MARCH 2011

No of Shares in Issue : 82,440,002 *
 Class of Shares : Ordinary Shares
 Voting Rights : One vote per share

* The Company does not have any treasury shares

Substantial Shareholders

As recorded in the Register of Substantial Shareholders as at 15 March 2011

Name	Direct Interest	No. of Shares	
		%	Deemed Interest %
Tan Gee Beng Private Limited	51,170,000	62.07	–
Smartron Technology Pte Ltd	14,150,000	17.16	–
Tan Tong Guan	240,001	0.29	51,170,000*
Tan Geok Moey	–	–	51,170,000*
Tan Yoke Hong	–	–	51,170,000*
Ho Yuet Hoe Jenny @ Ho Yuet Heng	–	–	14,150,000**

* Mr Tan Tong Guan, Ms Tan Geok Moey and Mr Tan Yoke Hong are deemed to have an interest in the shares held by the holding company, Tan Gee Beng Private Limited by virtue of Section 7 of the Companies Act, Cap. 50 (the "Act").

** Ms Ho Yuet Hoe Jenny @Ho Yuet Heng is deemed to have an interest in the shares held by Smartron Technology Pte Ltd by virtue of Section 7 of the Act.

Shareholdings in the hands of public

Based on information available to the Company as at 15 March 2011, approximately 15.78% of the issued ordinary shares of the Company are held by the public and therefore, the Company is in compliance with Rule 723 of Section B: Rules of Catalyst of the SGX-ST Listing Manual.

Shareholdings Statistics

AS AT 15 MARCH 2011



DISTRIBUTION OF SHAREHOLDINGS

SIZE OF SHAREHOLDINGS	NO. OF SHAREHOLDERS		NO. OF SHARES	
		%		%
1 – 999	0	0.00	0	0.00
1,000 – 10,000	369	73.50	1,340,000	1.63
10,001 – 1,000,000	130	25.90	12,300,001	14.92
1,000,001 AND ABOVE	3	0.60	68,800,001	83.45
TOTAL	502	100.00	82,440,002	100.00

TWENTY LARGEST SHAREHOLDERS

	NAME	NO. OF SHARES	%
1	TAN GEE BENG PRIVATE LIMITED	51,170,000	62.07
2	SMARTRON TECHNOLOGY PTE LTD	14,150,000	17.16
3	NG ENG SENG	3,480,001	4.22
4	LIM BAN THOON	1,000,000	1.21
5	TAN AH CHEW	809,000	0.98
6	ANG AH NUI	772,000	0.94
7	ANG SIN LIU	772,000	0.94
8	TAY HAN TUNG	590,000	0.72
9	LIM KIAN HENG	500,000	0.61
10	LIM SOO YONG	450,000	0.55
11	BOSSON DIDIER ANDRE	405,000	0.49
12	LEPRINCE HERVE JEROME MICHEL	280,000	0.34
13	TAN TONG GUAN	240,001	0.29
14	MARCUS STEPHAN HAUER	230,000	0.28
15	SIM AI LIAN	221,000	0.27
16	ANG CHIAN POH	200,000	0.24
17	ONG BEE DEE	200,000	0.24
18	SIO SIT PO	200,000	0.24
19	WONG CHOY PENG	200,000	0.24
20	TAN KOON HUA (CHEN KUNHUA)	170,000	0.21
	TOTAL	76,039,002	92.24



Notice of Annual General Meeting

NOTICE IS HEREBY GIVEN that the First Annual General Meeting of the Company will be held at SGX Auditorium, 2 Shenton Way, #02-00 Podium, SGX Centre 1, Singapore 068804 on Wednesday, 27 April 2011 at 3.00 p.m. to transact the following business:

AS ORDINARY BUSINESS

1. To receive and adopt the Directors' Report and Audited Financial Statements for the financial year ended 31 December 2010. **Resolution 1**
2. To declare a first & final tax exempt (one-tier) dividend of 1.0 cent per ordinary share for the financial year ended 31 December 2010. **Resolution 2**
3. To re-elect the following Directors each of whom will retire pursuant to the Articles of Association of the Company and who, being eligible, will offer themselves for re-election:
 - (a) Mr Tan Tong Guan (Pursuant to Article 91) **Resolution 3**
 - (b) Ms Tan Geok Moey (Pursuant to Article 97) **Resolution 4**
 - (c) Mr Chan Kum Kit (Pursuant to Article 97) **Resolution 5**
 - (d) Mr Teo Zee Vee (Pursuant to Article 97) **Resolution 6**
 - Ms Tan Geok Moey will, upon re-election as Director, remain as a member of the Audit, Remuneration and Nominating Committees and is considered non-independent for the purposes of Rule 704(7) of the Rules of Catalist of the Singapore Exchange Securities Trading Limited ("SGX-ST")
 - Mr Chan Kum Kit will, upon re-election as Director, continue to serve as Chairman of the Audit Committee and remain as a member of the Remuneration and Nominating Committees and is considered independent for the purposes of Rule 704(7) of the Rules of Catalist of the SGX-ST
 - Mr Teo Zee Vee will, upon re-election as Director, continue to serve as Chairman of the Remuneration and Nominating Committees and remain as a member of the Audit Committee and is considered independent for the purposes of Rule 704(7) of the Rules of Catalist of the SGX-ST
4. To approve the payment of Directors' fees of S\$68,000 for the financial year ended 31 December 2010. **Resolution 7**
5. To re-appoint Ernst & Young LLP as Independent Auditors of the Company and to authorise the Directors to fix their remuneration. **Resolution 8**
6. To transact any other ordinary business that may properly be transacted at an Annual General Meeting.

Notice of Annual General Meeting



AS SPECIAL BUSINESS

7. To consider and, if thought fit, to pass, with or without modifications, the following resolution as an Ordinary Resolution:

Authority to issue shares

Resolution 9

That pursuant to Section 161 of the Companies Act, Cap. 50 and the Rules of Catalist of the Listing Manual of the Singapore Exchange Securities Trading Limited ("SGX-ST"), authority be and is hereby given to the Directors of the Company to:

- (1) (i) issue shares in the capital of the Company whether by way of rights, bonus or otherwise; and/or
- (ii) make or grant offers, agreements or options (collectively, "**Instruments**") that might or would require shares to be issued, including but not limited to the creation and issue of (as well as adjustments to) options, warrants, debentures or other instruments convertible into shares;

at any time and upon such terms and conditions and for such purposes and to such persons as the Directors may in their absolute discretion deem fit; and

- (2) (notwithstanding the authority conferred by this Resolution may have ceased to be in force) issue shares in pursuance of any Instrument made or granted by the Directors while this Resolution was in force,

provided that:

- (a) the aggregate number of shares to be issued pursuant to this Resolution (including shares to be issued in pursuance of Instruments made or granted pursuant to this Resolution) does not exceed 100% of the total number of issued shares excluding treasury shares in the capital of the Company (as calculated in accordance with sub-paragraph (b) below), of which the aggregate number of shares and convertible securities to be issued other than on a pro rata basis to existing shareholders of the Company (including shares to be issued in pursuance of Instruments made or granted pursuant to this Resolution) does not exceed 50% of the total number of issued shares excluding treasury shares in the capital of the Company (as calculated in accordance with sub-paragraph (b) below);
- (b) (subject to such manner of calculation as may be prescribed by the SGX-ST) for the purpose of determining the aggregate number of shares that may be issued under sub-paragraph (a) above, the percentage of issued shares excluding treasury shares shall be based on the total number of issued shares excluding treasury shares in the capital of the Company at the time this Resolution is passed, after adjusting for:



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- (i) new shares arising from the conversion or exercise of any convertible securities or share options or vesting of share awards which are outstanding or subsisting at the time this Resolution is passed, provided the options or awards were granted in compliance with Part VIII of Chapter 8 of the Rules of Catalist of the SGX-ST; and
- (ii) any subsequent bonus issue, consolidation or sub-division of shares;
- (c) in exercising the authority conferred by this Resolution, the Company shall comply with the provisions of the Rules of Catalist of the SGX-ST for the time being in force (unless such compliance has been waived by the SGX-ST) and the Articles of Association for the time being of the Company; and
- (d) the authority conferred by this Resolution shall, unless revoked or varied by the Company in general meeting, continue in force until the conclusion of the next Annual General Meeting of the Company or the date by which the next Annual General Meeting of the Company is required by law to be held, whichever is the earlier.
[See Explanatory Note below]

By Order of the Board

Lee Seng Suan
Company Secretary

Singapore
6 April 2011

NOTES

1. A Member entitled to attend and vote at the Annual General Meeting is entitled to appoint not more than two proxies to attend and vote in his/her stead. Such proxy need not be a Member of the Company and where there are two proxies, the number of shares to be represented by each proxy must be stated.
2. The instrument or form appointing a proxy, duly executed, must be deposited at the Company's registered office at 20 Tampines Street 92, Singapore 528875, not less than 48 hours before the time for holding the above Annual General Meeting.

Notice of Annual General Meeting



EXPLANATORY NOTES ON SPECIAL BUSINESS TO BE TRANSACTED

The proposed Ordinary Resolution 9, if passed, will empower the Directors from the date of this Annual General Meeting until the next Annual General Meeting, to allot and issue new shares and/or convertible securities in the Company (whether by way of rights, bonus or otherwise) at any time. The number of shares and convertible securities that the Directors may allot and issue under this Resolution must not exceed 100% of the total number of issued shares excluding treasury shares of which the aggregate number of shares and convertible securities issued other than on a pro rata basis to existing shareholders must not be more than 50% of the total of issued shares excluding treasury shares at the time of the passing of this Resolution.

NOTICE OF BOOKS CLOSURE AND DIVIDEND PAYMENT DATES

Notice is hereby given that the Transfer Books and Register of Members of the Company will be closed on 6 May 2011 for the preparation of dividend warrants. Duly completed transfers received by the Company's Registrar, Boardroom Corporate & Advisory Services Pte. Ltd. at 50 Raffles Place #32-01, Singapore Land Tower, Singapore 048623 up to 5.00 p.m. on 5 May 2011 will be registered before entitlements to the proposed dividend are determined. Members whose Securities Accounts with The Central Depository (Pte) Limited are credited with shares at 5.00 p.m. on 5 May 2011 will be entitled to the proposed dividend. The proposed dividend, if approved by members at the Annual General Meeting, will be paid on 20 May 2011.

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SMARTFLEX HOLDINGS LTD

(Incorporated in the Republic of Singapore)
Company Reg. No. 201003501R

PROXY FORM Annual General Meeting

IMPORTANT:

1. For Investors who have used their CPF moneys to buy shares of Smartflex Holdings Ltd, the Annual Report 2011 is forwarded to them at the request of their CPF Approved Nominees and is sent solely FOR INFORMATION ONLY.
2. This Proxy Form is not valid for use by CPF Investors and shall be ineffective for all intents and purposes if used or purported to be used by them.
3. CPF Investors who wish to vote should contact their CPF Approved Nominees.

I/We, _____ (Name)
of _____ (Address)
being a member/members of the abovenamed Company, hereby appoint

Name	Address	NRIC/ Passport No.	Proportion of Shareholdings (%)
(a)			
And/or (delete as appropriate)			
(b)			

as my/our proxy/proxies to attend and to vote for me/us and on my/our behalf and, if necessary, to demand a poll, at the Annual General Meeting of the Company to be held at SGX Auditorium, 2 Shenton Way, #02-00 Podium, SGX Centre 1, Singapore 068804 on Wednesday, 27 April 2011 at 3.00 p.m. and at any adjournment thereof.

(Please indicate with an "X" in the spaces provided whether you wish your vote(s) to be cast for or against the Resolutions to be proposed at the Annual General Meeting as indicated hereunder. In the absence of specific directions, the proxy/proxies will vote or abstain from voting at his/their discretion.)

No.	Resolutions relating to:	For	Against
1	Adoption of Directors' Report and Financial Statements		
2	Declaration of a first & final tax exempt (one-tier) dividend		
3	Re-election of Mr Tan Tong Guan as Director		
4	Re-election of Ms Tan Geok Moey as Director		
5	Re-election of Mr Chan Kum Kit as Director		
6	Re-election of Mr Teo Zee Vee as Director		
7	Approval of Directors' fees		
8	Re-appointment of Ernst & Young LLP as Independent Auditors		
9	Authority to Directors to issue shares and/or convertible securities		

Dated this _____ day of _____ 2011

Total number of shares in:	No. of Shares
a) CDP Register	
b) Register of Members	

Signature of Individual Shareholder or
Common Seal of Corporate Shareholder

Notes:

1. A member of the Company entitled to attend and vote at the above meeting is entitled to appoint one or two proxies to attend and vote in his/her stead. A proxy need not be a member of the Company and where there is more than one proxy, the number of shares to be represented by each proxy must be stated.
2. This Proxy Form must be signed by the appointor or his/her duly authorised attorney or, if the appointor is a body corporate, signed by a duly authorised officer or his attorney and affixed with its common seal thereto.
3. This instrument appointing a proxy together with the power of attorney (if any) under which it is signed or a certified copy thereof, must be deposited at the registered office of the Company at 20 Tampines Street 92, Singapore 528875 not less than 48 hours before the time fixed for holding the Annual General Meeting.
4. Please insert the total number of shares held by you. If you have shares entered against your name in the Depository Register (as defined in Section 130A of the Companies Act, Chapter 50 of Singapore), you should insert that number of shares. If you have shares registered in your name in the Register of Members, you should insert that number of shares. If you have shares entered against your name in the Depository Register and shares registered in your name in the Register of Members, you should insert the aggregate number of shares entered against your name in the Depository Register and registered in your name in the Register of Members. If no number is inserted, the instrument appointing a proxy or proxies shall be deemed to relate to all the shares held by you.
5. The Company shall be entitled to reject this instrument of proxy if it is incomplete, not properly completed or illegible or where the true intentions of the appointor are not ascertainable from the instructions of the appointor specified in this instrument of proxy. In addition, in the case of members whose shares are deposited with The Central Depository (Pte) Limited ("CDP"), the Company may reject any instrument of proxy lodged if such member is not shown to have shares entered against his name in the Depository Register 48 hours before the time fixed for holding the Annual General Meeting as certified by CDP to the Company.

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Please affix postage stamp

The Company Secretary
Smartflex Holdings Ltd
20 Tampines Street 92
Singapore 528875

fold along this line (2)

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Smartflex Holdings Ltd.
(Company Registration No. 201003501R)

Principal Place of Business:
20 Tampines Street 92, Singapore 528875
Tel : + 65 6787 7133 Fax : + 65 6787 7163