

# Precision, Productivity & Purpose



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

# ANNUAL REPORT 2011

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This Annual Report 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 Annual Report.

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

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.



## **Smartflex Vision**

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

## **Smartflex Mission**

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





# Corporate Profile

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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.

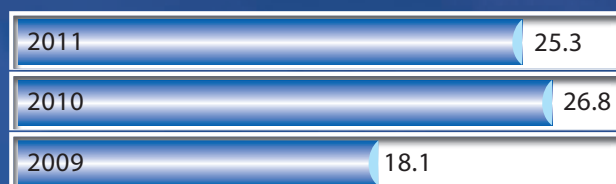
Encompassing an area of approximately 3,077.20 sq m, our manufacturing facility in Singapore houses equipment, with wafer mapping and dicing, die attach, wire bonding, encapsulation, and OS loading, and testing and inspection capabilities. With our full range of services, we are able to provide complete 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

|                     | <b>2011</b><br>US\$ million | 2010<br>US\$ million | 2009<br>US\$ million |
|---------------------|-----------------------------|----------------------|----------------------|
| Revenue             | <b>25.3</b>                 | 26.8                 | 18.1                 |
| Gross profit        | <b>5.5</b>                  | 6.3                  | 4.5                  |
| Profit after tax    | <b>1.3</b>                  | 2.1                  | 1.9                  |
| Shareholders' Funds | <b>11.2</b>                 | 10.6                 | 7.2                  |

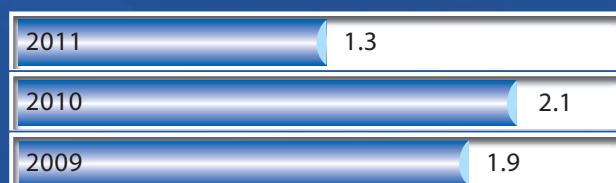
**Revenue** US\$ million



**Gross profit** US\$ million



**Profit after tax** US\$ million



**Shareholders' Funds** US\$ million





## Chairman's **Statement**

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Dear Shareholders,

On the behalf of our Board of Directors, I am pleased to present you with the annual report of Smartflex Holdings Limited ("the Group) for the financial year ended 31 December 2011 (FY2011).



## Overview

Building on the momentum achieved in FY2010, we got off to a good start for the first six months of FY2011 as we delivered a 18.3% increase in revenue to US\$14.6 million, while profit attributable to shareholders rose 40.7% to hit US\$1.6 million for 1HFY2011.

However, as guided in our 1HFY2011 results release, the results for the second half of FY2011 were affected by two factors. Firstly, due to the impact of the global economic uncertainty on the telecommunication and banking industries, we faced a resultant slowdown in demand for our smart cards module<sup>1</sup>. Secondly, in preparation for future expansion, we relocated our production facility to a 38% bigger premise with better physical security features, incurring a combined US\$0.3 million in relocation expenses and fixed assets write-off during the process.

As such, the combination of higher overheads and lower sales in the second half of the year resulted in our FY2011 revenue dipping by 5.6% to US\$25.3 million while profit attributable to shareholders dropped by 34.7% to US\$1.3 million.

Despite this short-term setback, our financial position remains strong as we generated US\$2.9 million in net operating cashflow in FY2011 (FY2010: US\$2.8 million). As such, our cash position increased to US\$3.3 million as at the end of 31 December 2011 compared to US\$2.8 million previously. Net cash generated during the year totaled US\$0.4 million.

Overall, we continue to maintain close ties with our customers, which include MNCs such as Oberthur Technologies, Eastcom Peace Smart Card and STMicroelectronics, through provision of a full range of smart card module related testing and assembly services.

## Outlook & Strategy

At the macro level, we remain concerned about the uncertain state of the global economy in 2012 and believe that a recovery will be very much dependent on a more solid resolution to the Eurozone crisis and the continued recovery of the US economy.

At the operational level, with the strengthening of the Singapore Dollar against the US Dollar and the escalating price of gold (which constitute a key portion of our raw material costs), we will continue to face pressure on our gross profit margin.

On a positive note, Eurosmart expect global shipment of smart cards to continue to grow in 2012, forecasting a 13% year-on-year increase to 6.92 billion units. This will be driven by a few factors including strong growth in demand for dual cards in both contact and contactless formats for the retail banking sector and in the telecommunications sector of developing markets like China and India.

To counteract our challenges while improving our performance, we have the following three-pronged strategy in place:

- (i) **Continuous improvement in operational efficiency to stay cost-competitive:** With our shift from our old facility at 20 Tampines Street 92 to the 38% larger new facility at 27 Ubi Road 4, we have made improvements to our manufacturing process and security layout to widen our business opportunities. We are also managing our costs actively and ensuring maximum utilization of our machines. We are pleased to say that our production yield is currently at 99.8%, which exceeds

the already stringent requirements of our MNC clients.

- (ii) **Diversification of customer base for earnings stability:**

Our key end users are from the telecommunication market in the emerging markets like China, India and Indonesia. To diversify our earnings stream, we are targeting other industries through the introduction of banking, dual interface and USB applications.

- (iii) **Introduction of new smart card-based products for differentiation and margin improvement:**

We plan to explore new products within the smartcard market as this will give us a competitive edge in terms of pricing and differentiate ourselves from our competition. To this end, the Group has on 8 February 2012 incorporated a wholly owned subsidiary, Smartflex Innovation Pte. Ltd. and will make timely announcements when new products are launched.

## Appreciation & Dividend

In closing, I would like to express my appreciation for the steadfast support of our customers, staff and business associates. In appreciation of our shareholders, the Board is pleased to recommend a first and final tax exempt dividend of 0.65 Singapore cents per ordinary share, subject to shareholder approval at the upcoming Annual General Meeting. I look forward to meeting you at our Annual General Meeting on 26<sup>th</sup> April 2012.

**Mr Tan Tong Guan**

Co-founder & Executive Chairman  
30 March 2012

<sup>1</sup> A smart card is any pocket-sized card with embedded integrated circuits. Smart cards can provide identification, authentication, data storage and application processing.



- 1 Tan Tong Guan
- 2 Eric Ng
- 3 Tan Geok Moey
- 4 Chan Kum Kit
- 5 Teo Zee Vee

## Directors Profile



**Tan Tong Guan***Co-founder and Executive Chairman*

Tan Tong Guan, age 48, 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's 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 the lead independent director and chairman of the audit committee of Sing Investments

and Finance Limited. 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, age 41, 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, age 51, 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 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, age 59, Independent Director, was appointed to the Board on 15 March 2010. He is also the chairman of the Audit Committee. He is currently the managing partner of Verity Partners, a public accounting practice. Mr Chan brings over 25 years of experience as a public 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. 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.

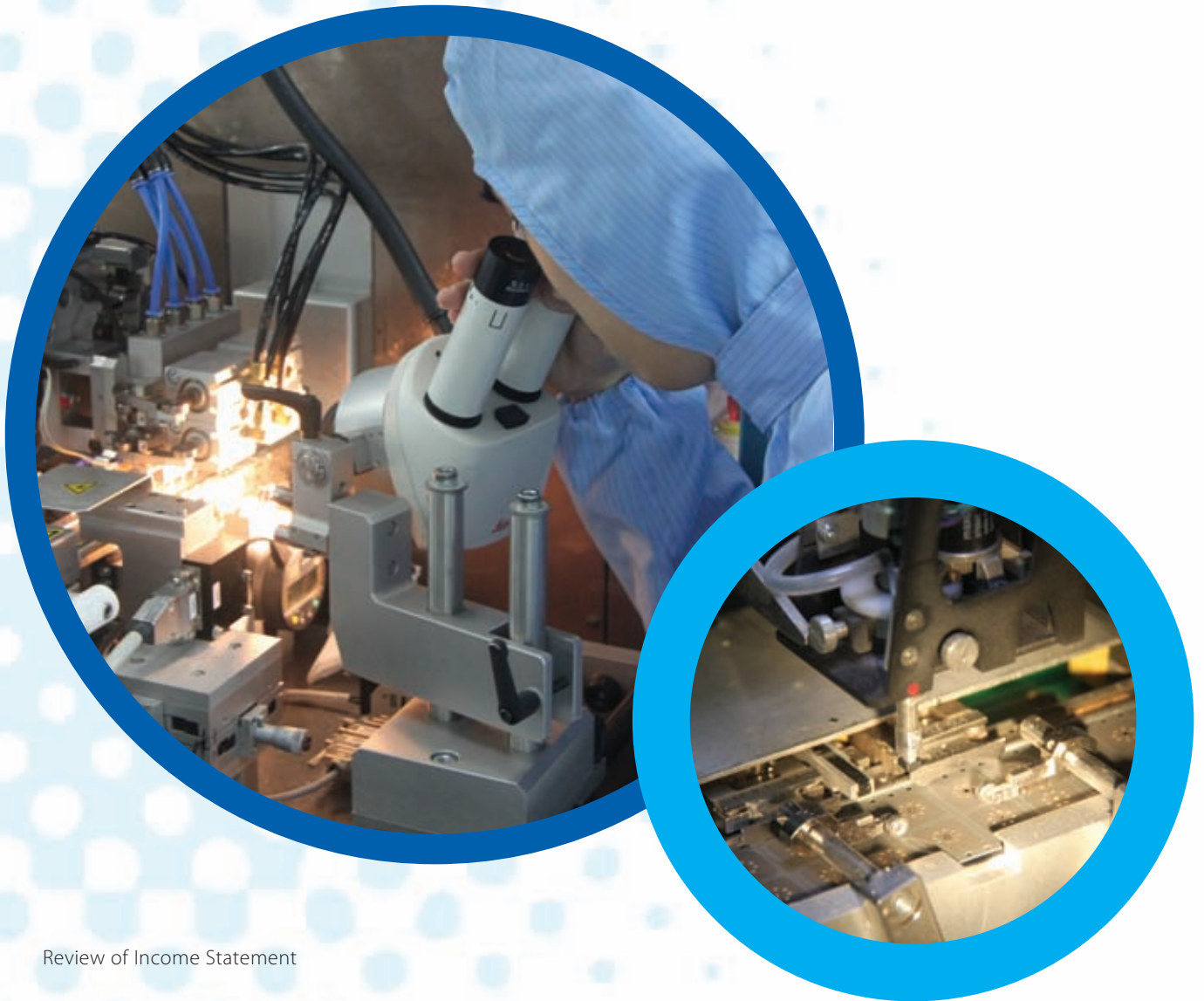
**Teo Zee Vee***Non-Executive and Independent Director*

Teo Zee Vee, age 44, 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.





# Operating & Financial Review



## Review of Income Statement

### Revenue

| Geographical Segment | FY2011 revenue (US\$'000) | As % of Group's revenue | FY2010 revenue (US\$'000) | As % of Group's revenue | Increase/ (Decrease) % |
|----------------------|---------------------------|-------------------------|---------------------------|-------------------------|------------------------|
| Europe               | 5,956                     | 24                      | 5,391                     | 20                      | 10.5                   |
| East Asia            | 3,350                     | 13                      | 7,691                     | 28                      | (56.4)                 |
| South Asia           | 15,294                    | 60                      | 13,644                    | 51                      | 12.1                   |
| Others               | 733                       | 3                       | 108                       | 1                       | 577.8                  |
| Total                | 25,333                    | 100                     | 26,834                    | 100                     | (5.6)                  |

### **Review of Income Statement**

The Group's revenue dipped by 5.6% to US\$25.3 million in FY2011 due to a slowdown of demand for telecommunication and banking products in both industries as a result of uncertain global economy outlook in the second half of 2011.

Revenues from the Group's top three customers represent approximately 48.8% of the Group's total revenues. These customers are located in South Asia and Europe respectively.

#### **Gross Profit and Gross Profit Margin**

Gross profit decreased by 12.2% to USD5.5 million in FY2011 due to the decline in sales volume. Gross profit margin declined to 21.8% in FY2011 from 23.5% in FY2010 mainly due to the increase in the cost of key direct materials.

#### **Administrative Expenses**

The Group's administrative expenses increased from USD3.5 million in FY2010 to USD3.9 million in FY2011. The increase was mainly due to the incurrence of factory relocation and related expenses of USD0.3 million, increase in rental of USD0.2 million, increase in production related expenses of USD0.3 million and an exchange loss of approximately USD0.1 million. This was partially offset with a net reduction in holding company expenses of approximately USD0.5 million which comprised mainly IPO expenses incurred in FY2010.

#### **Finance Expenses**

Finance expenses decreased by 40.3% to USD0.04 million in FY2011 mainly due to the reduced usage of trade finance facilities and retirement of certain term loans in FY2011.

#### **Taxation**

The Group's taxation expenses decreased by 74.2% to USD0.1 million in FY2011 as a result of lower profit before income tax and write back of overprovision of tax payable of approximately USD178K in respect of FY2010.

### **Net Profit**

For the reasons mentioned above, the Group's net profit attributable to owners of the Company decreased by approximately USD0.7 million or 34.7% to USD1.3 million in FY2011.

### **Review of Financial Position**

#### **Non-current Assets**

The Group's plant and equipment net of depreciation decreased by approximately USD0.1 million or 0.9% as compared to as at 31 December 2010. Renovation expenses for new factory of approximately USD1.6 million were incurred and approximately USD0.2 million of fixed asset was written off after the relocation.

#### **Current Assets**

The Group's inventories as at 31 December 2011 increased by approximately USD1.8 million or 146.7% as compared to as at 31 December 2010 mainly due to the advance purchase of key raw materials in anticipation of a price increase in early 2012.

The Group's trade and other receivables as at 31 December 2011 decreased by approximately USD0.8 million or 21.4% as compared to as at 31 December 2010 which is in line with the decrease in revenue in FY2011.

#### **Current Liabilities**

The Group's trade and other payables as at 31 December 2011 increased by approximately USD1.0 million or 47.3% as compared to as at 31 December 2010 mainly due to better vendor relation management in FY2011 as well as additional purchase of certain key materials in anticipation of price increase in early 2012.

The Group's short term loans and borrowings decreased by approximately USD0.3 million or 10.1% as compared to as at 31 December 2010 mainly due to the retirement of certain term loans.

### **Non-current Liabilities**

The Group's long term loans and borrowings as of 31 December 2011 were USD0.09 million. In FY2010, the Group's long term loans and borrowings have been classified as short term liabilities as Singapore Financial Reporting Standards (SFRS) 1, Presentation of Financial Statements requires all borrowings that may be recalled by bank at short notice to be classified as short term borrowings.

### **Review of Cashflow Statement**

The Group's cash and bank balances increased by 15.2% to USD3.3 million as at 31 December 2011. In FY2011, the Group recorded cash inflows from operating activities.

#### **Operating Activities**

The Group's operating cash flows before working capital requirement in FY2011 was USD3.2 million while net cash generated from operating activities was USD2.9 million (FY2010: USD2.8 million). The increase in inventories in the period under review of approximately USD1.8 million was largely offset by decrease in trade and other receivables/prepayment of approximately USD0.6 million and increase in trade and other payables of approximately USD1 million.

#### **Investing Activity**

The Group's net cash outflow from investing activity for FY2011 was approximately USD1.6 million as compared to USD2.4 million in FY2010, due to the investment in renovation expenses for new factory.

#### **Financing Activities**

The Group's net cash outflow from financing activities was approximately USD0.9 million as compared to cash inflow of USD 0.6 million in FY2010. This comprised the repayment of term loan of approximately USD0.2 million and dividend payment of approximately USD0.7 million paid on 20 May 2011.



## Key Management Profile

### **Yeo Choon Tat**

*Financial Controller*

Yeo Choon Tat, age 58, 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**

*Product Director*

Pang Sze Yong, age 40, Product Director, responsible for new products development and management. 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.

### **Vincent Sim**

*Human Resource Manager*

Vincent Sim, age 44, 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.

### **Mok Wai Ping**

*Sales Director*

Mok Wai Ping, age 33, Sales Director, responsible for sales and business development of our Group. Ms Mok joined our Group in 2012 and has more than 8 years of relevant experience in sales and business development in the smartcard industry. Ms Mok holds a Diploma in Marketing Communications from Temasek Polytechnic and a Honours Degree in Management from the University of Manchester.

\* 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

## Registered Office

27 Ubi Road 4 #04-04  
Singapore 408618  
Telephone: (65) 6787 7133  
Fax: (65) 6747 1741  
Website: [www.smartflex.com.sg](http://www.smartflex.com.sg)  
[enquiry@smartflex.com.sg](mailto:enquiry@smartflex.com.sg)

## Share Registrar

Boardroom Corporate & Advisory Services Pte. Ltd.  
50 Raffles Place  
#32-01 Singapore Land Tower  
Singapore 048623  
Telephone: (65) 6536 5355  
Fax: (65) 6536 1360

## Sponsors

CIMB Bank Berhad  
Singapore Branch  
50 Raffles Place  
#09-01 Singapore Land Tower  
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



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Productivity  
& Purpose

# 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 Code 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;
- establishing a framework of prudent and effective controls which enables risk to be assessed and managed;
- setting the Company's values and standards, and ensuring that obligations to shareholders and others are understood and met; and
- Reviewing the Group's financial performance, risk management processes and systems, 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 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 acknowledge 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 to the Board, each Director 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 in 2011 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                        | –   | 2 *                      | –   | 2 *                      | –   | 2 *                      |
| Eric Ng Eng Seng | 2   | 2                        | –   | 2 *                      | –   | 2 *                      | –   | 2 *                      |
| Tan Geok Moey    | 2   | 2                        | 2   | 2                        | 2   | 2                        | 2   | 2                        |
| Teo Zee Vee      | 2   | 2                        | 2   | 2                        | 2   | 2                        | 2   | 2                        |
| Chan Kum Kit     | 2   | 2                        | 2   | 2                        | 2   | 2                        | 2   | 2                        |

\* 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 to enable them to keep abreast of the Group's operational and financial performance and position and to facilitate better-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 Catalist 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 Executive 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 resolution 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**

The Group advocates a performance-based remuneration system that is 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.

Executive Directors do not receive Directors' fees. Executive Directors are paid pursuant to their respective service agreements, each of which is for an appointment period of 3 years. While our Executive Directors have entered into services 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.

# 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 Chairman of each Board committee is paid an additional fee, the Chairman of Audit Committee is paid a higher fee than Chairman of the other Board committees 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 (including remuneration from any subsidiary) of the Company's Directors and Executive Officers (who are not also directors) for the financial year ended 31 December 2011 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 |
|--|-------------------|-------|-----------------|------------------|-------|
| <b>Directors</b>   |                   |       |                 |                  |       |
| Tan Tong Guan  | 84.6%             | 15.4% | –               | –                | 100%  |
| Eric Ng Eng Seng   | 87.4%             | 12.6% | –               | –                | 100%  |
| Tan Geok Moey  | –                 | –     | 100%            | –                | 100%  |
| Teo Zee Vee  | –                 | –     | 100%            | –                | 100%  |
| Chan Kum Kit   | –                 | –     | 100%            | –                | 100%  |
| <b>Executive Officers</b>  |                   |       |                 |                  |       |
| Yeo Choon Tat  | 85.5%             | 14.5% | –               | –                | 100%  |
| Pang Sze Yong  | 80.7%             | 19.3% | –               | –                | 100%  |
| Vincent Sim Chee Hui   | 80.0%             | 20.0% | –               | –                | 100%  |
| Ong Lay Khoon  | 82.7%             | 17.3% | –               | –                | 100%  |
| Teo Hock Beng  | 92.0%             | 8.0%  | –               | –                | 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 2011. "Immediate family member" means the Director's spouse, child, adopted child, stepchild, brother, sister and parent.

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



# Report on Corporate Governance

## 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 effectively and 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 person including a Director or an employee of the Group to attend its meetings, 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 the independent auditor, and approving the remuneration and terms of engagement of the independent auditor;

# Report on Corporate Governance

- Review with the independent 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 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;
- 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;
- 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.



# Report on Corporate Governance

The Audit Committee will meet with independent auditors and with the internal auditors, at least annually, 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.

In appointing the auditing firms for the Company and its subsidiary company, the Company has complied with Listing Rules 712 and 715.

## Principle 12: Internal Controls

The Audit Committee will review the reports submitted by the independent 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 independent and internal auditors in this respect.

The Board will review the effectiveness of the internal controls, including financial, operational and compliance controls and risk management to ensure that they are adequate to meet the needs of the Company in its current business environment.

The Board of Directors and the Audit Committee have reviewed the adequacy of the Group's internal controls that address the Group's financial, operational and compliance risks. Based on the review conducted, the Board of Directors and the Audit Committee are of the opinion that the system of internal controls in place are adequate in meeting the current scope of the Group's business operations.

# Report on Corporate Governance

## 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 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(19) 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.



# Report on Corporate Governance

## 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.

## Fees Paid to Independent Auditors

Ernst & Young LLP, the independent auditors, rendered the following services (and charged the fees) set out below for the financial year ended 31 December 2011:

|  | <b>Group</b>           |                |
|--|------------------------|----------------|
|  | <b>2011<br/>\$'000</b> | 2010<br>\$'000 |
| Audit fees   | <b>46</b>              | 46             |
| Non-audit fees:  |                        |                |
| Tax service fee  | <b>10</b>              | 9              |
| Fees for Accountant's Report pertaining to the Company's IPO | <b>0</b>               | 231            |
| <b>Total audit and non-audit fees</b>                        | <b>56</b>              | 286            |

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 independent 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 2011.

# 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 2011.

## 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 objects 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 and debentures

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                    | 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 |
| <b>The Company</b>                  |   |                              |   |                              |
| Tan Tong Guan                       | 240,001   | 565,001                      | 51,170,000  | 51,170,000                   |
| Ng Eng Seng Eric                    | 3,480,001   | 3,480,001                    | –   | –                            |
| Tan Geok Moey                       | –   | –                            | 51,170,000  | 51,170,000                   |
| <b>Ultimate holding company</b>     |   |                              |   |                              |
| <b>Tan Gee Beng Pte Ltd</b>         |   |                              |   |                              |
| Tan Tong Guan                       | 16,975  | 16,975                       | 7,333   | 7,333                        |
| Tan Geok Moey                       | 11,120  | 11,120                       | –   | –                            |
| <b>Subsidiary company</b>           |   |                              |   |                              |
| <b>Smartflex Technology Pte Ltd</b> |   |                              |   |                              |
| Tan Tong Guan                       | –   | –                            | 34,720,000  | 34,720,000                   |
| Tan Geok Moey                       | –   | –                            | 34,720,000  | 34,720,000                   |

There was no change in any of the above-mentioned interests in the Company between the end of the financial year and 21 January 2012.



# Directors' Report

## **Directors' interests in shares and debentures (cont'd)**

Except as disclosed in this report, no director who held office at the end of the financial year had interests in shares or convertible securities 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 two meetings during the year with full attendance from all members. The AC has also met with internal and external auditors, without the presence of the Company's management, at least once a year.

The Board of Directors and the Audit Committee have reviewed the adequacy of the Group's internal controls that address the Group's financial, operational and compliance risks. Based on the review conducted, the Board of Directors and the Audit Committee are of the opinion that, in the absence of any evidence to the contrary, the system of internal controls in place are adequate in meeting the current scope of the Group's business operations.

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 2012

# 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 2011 and the results of the business, 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 2012



# Independent Auditor's Report

To the Members of Smartflex Holdings Ltd

## **Report on the financial statements**

We have audited the accompanying financial statements of Smartflex Holdings Ltd. (the "Company") and its subsidiary (collectively, the "Group") set out on pages 30 to 71, which comprise the balance sheets of the Group and the Company as at 31 December 2011, 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 financial statements*

Management is responsible for the preparation of financial statements that give a true and fair view in accordance with the provisions of the Singapore Companies Act Chapter 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.

### *Auditor's responsibility*

Our responsibility is to express an opinion on these 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 financial statements are free from material misstatement.

An audit involves performing procedures to obtain audit evidence about the amounts and disclosures in the financial statements. The procedures selected depend on the auditor's judgment, including the assessment of the risks of material misstatement of the 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 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 financial statements.

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

# Independent Auditor's 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 2011 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 2012



# Balance Sheets

As at 31 December 2011

|                                     | Note | Group              |              | Company          |              |
|-------------------------------------|------|--------------------|--------------|------------------|--------------|
|                                     |      | 2011<br>US\$       | 2010<br>US\$ | 2011<br>US\$     | 2010<br>US\$ |
| <b>Non-current assets</b>           |      |                    |              |                  |              |
| Property, plant and equipment       | 3    | 8,660,727          | 8,737,868    | -                | -            |
| Investment in subsidiary            | 4    | -                  | -            | 7,197,408        | 7,197,408    |
| <b>Current assets</b>               |      |                    |              |                  |              |
| Inventories                         | 5    | 3,083,600          | 1,250,136    | -                | -            |
| Trade and other receivables         | 6    | 3,084,359          | 3,925,324    | -                | -            |
| Amount due from subsidiary          |      | -                  | -            | 1,907,010        | 1,233,510    |
| Prepayments                         |      | 317,216            | 28,317       | 4,025            | 2,738        |
| Cash and cash equivalents           | 7    | 3,281,227          | 2,847,624    | 7,647            | 7,126        |
| <b>Total assets</b>                 |      | <b>18,427,129</b>  | 16,789,269   | <b>9,116,090</b> | 8,440,782    |
| <b>Current liabilities</b>          |      |                    |              |                  |              |
| Trade payables                      | 8    | 2,246,241          | 1,308,034    | -                | -            |
| Other payables and accruals         | 9    | 853,717            | 796,839      | 74,091           | 74,875       |
| Loans and borrowings                | 10   | 2,408,218          | 2,680,014    | -                | -            |
| Tax payable                         |      | 327,729            | 326,473      | -                | -            |
|                                     |      | <b>5,835,905</b>   | 5,111,360    | <b>74,091</b>    | 74,875       |
| <b>Net current assets</b>           |      | <b>3,930,497</b>   | 2,940,041    | <b>1,844,591</b> | 1,168,499    |
| <b>Non-current liabilities</b>      |      |                    |              |                  |              |
| Deferred tax liability              | 11   | (1,259,362)        | (1,111,548)  | -                | -            |
| Loans and borrowings                | 10   | (91,564)           | -            | -                | -            |
| <b>Net assets</b>                   |      | <b>11,240,298</b>  | 10,566,361   | <b>9,041,999</b> | 8,365,907    |
| <b>Share capital</b>                | 12   | <b>9,125,528</b>   | 9,125,528    | <b>9,125,528</b> | 9,125,528    |
| <b>Revenue reserves</b>             |      | <b>7,103,167</b>   | 6,429,230    | <b>(83,529)</b>  | (759,621)    |
| <b>Merger reserve</b>               | 13   | <b>(4,988,397)</b> | (4,988,397)  | -                | -            |
| <b>Total equity</b>                 |      | <b>11,240,298</b>  | 10,566,361   | <b>9,041,999</b> | 8,365,907    |
| <b>Total equity and liabilities</b> |      | <b>18,427,129</b>  | 16,789,269   | <b>9,116,090</b> | 8,440,782    |

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 2011

|   | Note | 2011<br>US\$     | 2010<br>US\$ |
|---|------|------------------|--------------|
| Revenue   | 14   | 25,332,870       | 26,834,314   |
| Cost of sales   |      | (19,797,957)     | (20,532,423) |
| <b>Gross profit</b>   |      | <b>5,534,913</b> | 6,301,891    |
| Other operating income  | 15   | 4,668            | 9,904        |
| Selling and distribution expenses   |      | (57,624)         | (64,654)     |
| Administrative expenses   |      | (3,951,938)      | (3,549,466)  |
| Finance expense   | 16   | (36,561)         | (62,312)     |
| <b>Profit before taxation</b>   | 17   | <b>1,493,458</b> | 2,635,363    |
| Taxation  | 18   | (149,070)        | (577,518)    |
| <b>Profit net of tax</b>  |      | <b>1,344,388</b> | 2,057,845    |
| <b>Other comprehensive income for the year, net of tax</b>                      |      | <b>-</b>         | -            |
| <b>Total comprehensive income attributable to equity holders of the Company</b> |      | <b>1,344,388</b> | 2,057,845    |
| <b>Earnings per share (in US\$ cents)</b>                                       |      |                  |              |
| Basic and diluted   | 19   | 1.63             | 2.71         |

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 2011

| <b>Group</b>                               | <b>Share capital<br/>(Note 12)</b><br>US\$ | <b>Revenue<br/>reserves</b><br>US\$ | <b>Merger<br/>reserve<br/>(Note 13)</b><br>US\$ | <b>Total<br/>reserves</b><br>US\$ | <b>Total<br/>equity</b><br>US\$ |
|--|--|-------------------------------------|---|-----------------------------------|---------------------------------|
| Balance at 1 January 2011                  | 9,125,528                                  | 6,429,230                           | (4,988,397)                                     | 1,440,833                         | 10,566,361                      |
| Profit for the year                        | –  | 1,344,388                           | –   | 1,344,388                         | 1,344,388                       |
| Total comprehensive income for the year    | –  | 1,344,388                           | –   | 1,344,388                         | 1,344,388                       |
| Dividends on ordinary shares (Note 23)     | –  | (670,451)                           | –   | (670,451)                         | (670,451)                       |
| Balance at 31 December 2011                | 9,125,528                                  | 7,103,167                           | (4,988,397)                                     | 2,114,770                         | 11,240,298                      |
| 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                | 9,125,528                                  | 6,429,230                           | (4,988,397)                                     | 1,440,833                         | 10,566,361                      |

| <b>Company</b>  | <b>Share capital<br/>(Note 12)</b><br>US\$ | <b>Accumulated<br/>losses</b><br>US\$ | <b>Total<br/>equity</b><br>US\$ |
|---|--|---------------------------------------|---------------------------------|
| Balance at 1 January 2011                                 | 9,125,528                                  | (759,621)                             | 8,365,907                       |
| Profit for the year                                       | –  | 1,346,543                             | 1,346,543                       |
| Total comprehensive income for the year                   | –  | 1,346,543                             | 1,346,543                       |
| Dividends on ordinary shares (Note 23)                    | –  | (670,451)                             | (670,451)                       |
| Balance at 31 December 2011                               | 9,125,528                                  | (83,529)                              | 9,041,999                       |
| 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                               | 9,125,528                                  | (759,621)                             | 8,365,907                       |

\* 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 2011

|  | 2011<br>US\$       | 2010<br>US\$ |
|--|--------------------|--------------|
| <b>Cash flows from operating activities</b>                        |                    |              |
| Profit before taxation   | 1,493,458          | 2,635,363    |
| Adjustments for:   |                    |              |
| Depreciation of property, plant and equipment                      | 1,519,145          | 1,384,200    |
| Property, plant and equipment written off                          | 175,270            | –            |
| Interest income  | –                  | (2,616)      |
| Interest expense   | 36,561             | 62,312       |
| <b>Operating profit before working capital changes</b>             | <b>3,224,434</b>   | 4,079,259    |
| Decrease/(increase) in trade and other receivables and prepayments | 552,066            | (703,024)    |
| Increase in inventories  | (1,833,464)        | (631,698)    |
| Increase in trade and other pay ables                              | 995,085            | 66,215       |
| <b>Cash generated from operations</b>                              | <b>2,938,121</b>   | 2,810,752    |
| Interest received  | –                  | 2,616        |
| Interest paid  | (36,561)           | (62,312)     |
| <b>Net cash generated from operating activities</b>                | <b>2,901,560</b>   | 2,751,056    |
| <b>Cash flows from investing activities</b>                        |                    |              |
| Purchase of property, plant and equipment                          | (1,617,274)        | (2,396,804)  |
| <b>Net cash used in investing activities</b>                       | <b>(1,617,274)</b> | (2,396,804)  |
| <b>Cash flows from financing activities</b>                        |                    |              |
| Repayment of loans and borrowings, net                             | (180,232)          | (722,720)    |
| Proceeds from issuance of shares                                   | –                  | 1,928,120    |
| Dividends paid   | (670,451)          | (617,012)    |
| <b>Net cash (used in)/from financing activities</b>                | <b>(850,683)</b>   | 588,388      |
| Net increase in cash and cash equivalents                          | 433,603            | 942,640      |
| Cash and cash equivalents at beginning of the year (Note 7)        | 2,847,624          | 1,904,984    |
| <b>Cash and cash equivalents at end of the year (Note 7)</b>       | <b>3,281,227</b>   | 2,847,624    |

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



# Notes to the Financial Statements

31 December 2011

## 1. Corporate information

### 1.1 The Company

Smartflex Holdings Ltd (the "Company") is a limited liability company incorporated and domiciled in Singapore and is listed on the Singapore Exchange Securities Trading Limited (SGX-ST). The ultimate holding company is Tan Gee Beng Pte Ltd, also incorporated in Singapore.

The registered office and principal place of business of the Company are located at 27 Ubi Road 4, #04-04, Singapore 408618. The principal activity of the Company is that of investment holding.

The principal activities of the subsidiary are disclosed in Note 4 to the financial statements.

### 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 of 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.

## 2. Summary of significant accounting policies

### 2.1 Basis of preparation

The consolidated financial statements of the Group and the balance sheet and statement of changes in equity of the Company have been prepared in accordance with Singapore Financial Reporting Standards ("FRS").

The financial statements have been prepared on the historical cost basis and are presented in United States Dollars ("USD" or "US\$").

The consolidated financial statements of the Group presented for the financial year ended 31 December 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 year ended 31 December 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.

# Notes to the Financial Statements

31 December 2011

## 2. Summary of significant accounting policies (cont'd)

### 2.2 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 2011. The adoption of these standards and interpretations did not have any effect on the financial performance or position of the Group and the Company.

### 2.3 Standards issued but not yet effective

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

| Reference | Description   | Effective for annual periods beginning on or after |
|-----------|---|--|
| FRS 107   | Amendments to FRS 107 Disclosures – Transfers of Financial Assets       | 1 July 2011  |
| FRS 12    | Amendment to FRS 12 Deferred Tax – Recovery of Underlying Assets        | 1 January 2012                                     |
| FRS 1     | Amendments to FRS 1 Presentation of Items of Other Comprehensive Income | 1 July 2012  |
| FRS 19    | Revised FRS 19 Employee Benefits  | 1 January 2013                                     |
| FRS 27    | Revised FRS 27 Separate Financial Statements                            | 1 January 2013                                     |
| FRS 28    | Revised FRS 28 Investments in Associates and Joint Ventures             | 1 January 2013                                     |
| FRS 110   | FRS 110 Consolidated Financial Statements                               | 1 January 2013                                     |
| FRS 111   | FRS 111 Joint Arrangements  | 1 January 2013                                     |
| FRS 112   | FRS 112 Disclosure of Interests in Other Entities                       | 1 January 2013                                     |
| FRS 113   | FRS 113 Fair Value Measurements   | 1 January 2013                                     |

Except for the Amendments to FRS 1 and FRS 112, 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 Amendments to FRS 1 and FRS 112 are described below.

#### Amendments to FRS 1 Presentation of Items of Other Comprehensive Income

The Amendments to FRS 1 Presentation of Items of Other Comprehensive Income (OCI) is effective for financial periods beginning on or after 1 July 2012.

The Amendments to FRS 1 changes the grouping of items presented in OCI. Items that could be reclassified to profit or loss at a future point in time would be presented separately from items which will never be reclassified. As the Amendments only affect the presentations of items that are already recognised in OCI, the Group does not expect any impact on its financial position or performance upon adoption of this standard.



# Notes to the Financial Statements

31 December 2011

## 2. Summary of significant accounting policies (cont'd)

### 2.3 Standards issued but not yet effective (cont'd)

#### FRS 112 Disclosure of Interests in Other Entities

FRS 112 is effective for financial periods beginning on or after 1 January 2013.

FRS 112 is a new and comprehensive standard on disclosure requirements for all forms of interests in other entities, including joint arrangements, associates, special purpose vehicles and other off balance sheet vehicles. FRS 112 requires an entity to disclose information that helps users of its financial statements to evaluate the nature and risks associated with its interests in other entities and the effects of those interests on its financial statements. The Group is currently determining the impact of the disclosure requirements. As this is a disclosure standard, it will have no impact to the financial position and financial performance of the Group when implemented in 2013.

### 2.4 Significant accounting estimates and judgements

The preparation of the Group's consolidated financial statements requires management to make judgments, estimates and assumptions that affect the reported amounts of revenues, expenses, assets and liabilities, and the disclosure of contingent liabilities at the end of each reporting period. However, uncertainty about these assumptions and estimates could result in outcomes that could require a material adjustment to the carrying amount of the asset or liability affected in the future periods.

#### (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.

# Notes to the Financial Statements

31 December 2011

## 2. Summary of significant accounting policies (cont'd)

### 2.4 Significant accounting estimates and judgements (cont'd)

#### (a) Key sources of estimation uncertainty (cont'd)

##### (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 the reporting period are disclosed in Note 6 to the financial statements.

#### (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 and deferred tax liability at 31 December 2011 are US\$327,729 (2010: US\$326,473) and US\$1,259,362 (2010: US\$1,111,548).

### 2.5 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.



# Notes to the Financial Statements

31 December 2011

## 2. Summary of significant accounting policies (cont'd)

### 2.5 Basis of consolidation (cont'd)

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.

### 2.6 Foreign currency

The Group's consolidated financial statements are presented in United States Dollars, which is also the Company's functional currency. Each entity in the Group determines its own functional currency and items included in the financial statements of each entity are measured using that functional currency.

#### (a) Transactions and balances

Transactions in foreign currencies are measured in the respective functional currencies of the Company and its subsidiary and are recorded on initial recognition in the functional currencies at exchange rates approximating those ruling at the transaction dates. Monetary assets and liabilities denominated in foreign currencies are translated at the rate of exchange ruling at the end of the reporting period. Non-monetary items that are measured in terms of historical cost in a foreign currency are translated using the exchange rates as at the dates of the 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.

#### (b) Consolidated financial statements

The management has determined the currency of the primary economic environment in which the Company operates i.e. functional currency, to be USD. Sales prices and major costs of providing goods and services including major operating expenses are primarily influenced by fluctuations in USD.

# Notes to the Financial Statements

31 December 2011

## 2. Summary of significant accounting policies (cont'd)

### 2.7 Property, plant and equipment

All items of property, plant and equipment are initially recorded at cost. Subsequent to recognition, plant and equipment and furniture and fixtures are measured at cost less accumulated depreciation and any accumulated impairment losses. The cost includes the cost of replacing part of the property, plant and equipment and borrowing costs that are directly attributable to the acquisition, construction or production of a qualifying property, plant and equipment. The accounting policy for borrowing costs is set out in Note 2.19. The cost of an item of property, plant and equipment is recognised as an asset if, and only if, it is probable that future economic benefits associated with the item will flow to the Group and the cost of the item can be measured reliably.

When significant parts of property, plant and equipment are required to be replaced in intervals, the Group recognises such parts as individual assets with specific useful lives and depreciation, respectively. Likewise, when a major inspection is performed, its cost is recognised in the carrying amount of the plant and equipment as a replacement if the recognition criteria are satisfied. All other repair and maintenance costs are recognised in profit or loss as incurred.

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 carrying values of property, plant and equipment are reviewed for impairment when events or changes in circumstances indicate that the carrying value may not be recoverable.

The residual value, 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, and adjusted prospectively, if appropriate.

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.



# Notes to the Financial Statements

31 December 2011

## 2. Summary of significant accounting policies (cont'd)

### 2.8 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 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. 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. 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, recent market transactions are taken into account, if available. If no such transactions can be identified, 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.

Impairment losses are recognised in profit or loss in those expense categories consistent with the function of the impaired asset, 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.

### 2.9 Subsidiaries

A subsidiary is an entity over which the Group has the power to govern the financial and operating policies so as to obtain benefits from its activities.

In the Company's separate financial statements, investments in subsidiaries are accounted for at cost less impairment losses.

# Notes to the Financial Statements

31 December 2011

## 2. Summary of significant accounting policies (cont'd)

### 2.10 Financial assets

#### *Initial recognition and measurement*

Financial assets are recognised when, and only when, the Group becomes a party to the contractual provisions of the financial instrument. The Group determines the classification of its financial assets at initial recognition.

When financial assets are recognised initially, they are measured at fair value, plus, in the case of financial assets not at fair value through profit or loss, directly attributable transaction costs.

#### *Subsequent measurement*

The subsequent measurement of financial assets depends on their classification as follows:

#### Loans and receivables

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.

#### *Derecognition*

A financial asset is derecognised where the contractual right to receive cash flows from the asset has expired. On derecognition of a financial asset in its entirety, the difference between the carrying amount and the sum of the consideration received and any cumulative gain or loss that has been recognised directly in other comprehensive income is recognised in profit or loss.

All regular way purchases and sales of financial assets are recognised or derecognised on the trade date i.e., the date that the Group commits to purchase or sell the asset. Regular way purchases or sales are purchases or sales of financial assets that require delivery of assets within the period generally established by regulation or convention in the marketplace concerned.



# Notes to the Financial Statements

31 December 2011

## 2. Summary of significant accounting policies (cont'd)

### 2.11 Impairment of financial assets

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

#### a) *Financial assets carried at amortised cost*

For financial assets carried at amortised cost, the Group first assesses whether objective evidence of impairment exists individually for financial assets that are individually significant, or collectively for financial assets that are not individually significant. If the Group determines that no objective evidence of impairment exists for an individually assessed financial asset, whether significant or not, it includes the asset in a group of financial assets with similar credit risk characteristics and collectively assesses them for impairment. Assets that are individually assessed for impairment and for which an impairment loss is, or continues to be recognised are not included in a collective assessment of impairment.

If there is objective evidence that an impairment loss on financial assets carried at amortised cost has 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 discounted at the financial asset's original effective interest rate. 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 impairment loss is recognised in profit or loss.

When the asset becomes uncollectible, the carrying amount of impaired financial assets is reduced directly or if an amount was charged to the allowance account, the amounts charged to the allowance account are written off against the carrying value of the financial asset.

To determine whether there is objective evidence that an impairment loss on financial assets has been incurred, the Group considers factors such as the probability of insolvency or significant financial difficulties of the debtor and default or significant delay in payments.

If in a 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 to the extent that the carrying amount of the asset does not exceed its amortised cost at the reversal date. The amount of reversal is recognised in profit or loss.

#### b) *Financial assets carried at cost*

If there is objective evidence (such as significant adverse changes in the business environment where the issuer operates, probability of insolvency or significant financial difficulties of the issuer) that an impairment loss on financial assets carried at 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 discounted at the current market rate of return for a similar financial asset. Such impairment losses are not reversed in subsequent periods.

# Notes to the Financial Statements

31 December 2011

## 2. Summary of significant accounting policies (cont'd)

### 2.12 Cash and cash equivalents

Cash and cash equivalents comprise cash at bank and on hand, demand deposits, and short-term, highly liquid investments that are readily convertible to known amount of cash and which are subject to an insignificant risk of changes in value. These also include bank overdrafts that form an integral part of the Group's cash management.

### 2.13 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 Group 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 2.11.

### 2.14 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.



# Notes to the Financial Statements

31 December 2011

## 2. Summary of significant accounting policies (cont'd)

### 2.15 Financial liabilities

#### *Initial recognition and measurement*

Financial liabilities are recognised when, and only when, the Group becomes a party to the contractual provisions of the financial instrument. The Group determines the classification of its financial liabilities at initial recognition.

All financial liabilities are recognised initially at fair value plus in the case of other financial liabilities not at fair value through profit or loss, directly attributable transaction costs.

#### *Subsequent measurement*

The measurement of financial liabilities depends on their classification as follows:

#### Financial liabilities at fair value through profit or loss

Financial liabilities at fair value through profit or loss includes financial liabilities held for trading and financial liabilities designated upon initial recognition as at fair value through profit or loss. Financial liabilities are classified as held for trading if they are acquired for the purpose of selling in the near term.

Subsequent to initial recognition, financial liabilities at fair value through profit or loss are measured at fair value. Any gains or losses arising from changes in fair value of the financial liabilities are recognised in profit or loss.

The Group has not designated any financial liabilities upon initial recognition at fair value through profit or loss.

#### Other financial liabilities

After initial recognition, other financial liabilities are subsequently measured at amortised cost using the effective interest rate method. Gains and losses are recognised in profit or loss when the liabilities are derecognised, and through the amortisation process.

#### *Derecognition*

A financial liability is derecognised when the obligation under the 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 2011

## 2. Summary of significant accounting policies (cont'd)

### 2.16 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 rate method.

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

### 2.17 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 resources embodying economic benefits 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.

### 2.18 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 rate method.

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



# Notes to the Financial Statements

31 December 2011

## 2. Summary of significant accounting policies (cont'd)

### 2.19 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.

### 2.20 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, even if that right is not explicitly specified in an arrangement.

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 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.

# Notes to the Financial Statements

31 December 2011

## 2. Summary of significant accounting policies (cont'd)

### 2.21 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 an expense 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 the employees. The estimated liability for leave is recognised for services rendered by employees up to the end of the reporting period.

### 2.22 Revenue recognition

Revenue is recognised to the extent that it is probable that the economic benefits will flow to the Group and the revenue can be reliably measured, regardless of when the payment is made. Revenue is measured at the fair value of consideration received or receivable, taking into account contractually defined terms of payment and excluding taxes or duty. The Group assesses its revenue arrangements to determine if it is acting as principal or agent. The Group has concluded that it is acting as a principal in all of its revenue arrangements. The following specific recognition criteria must also be met before revenue is recognised:

(a) *Sale of goods*

Revenue from sale of goods is recognised when significant risks and rewards of ownership of the goods have been transferred to the buyer, usually on delivery of goods. Revenue is not recognised to the extent where there are significant uncertainties regarding recovery of the consideration due, associated costs or the possible return of goods.

(b) *Interest income*

Interest income is recognised using the effective interest method.



# Notes to the Financial Statements

31 December 2011

## 2. Summary of significant accounting policies (cont'd)

### 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 substantively 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 2011

## 2. Summary of significant accounting policies (cont'd)

### 2.23 Taxes (cont'd)

#### (b) *Deferred tax (cont'd)*

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 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 recovered.

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 taxes relates to the same taxable entity and the same taxation authority.



# Notes to the Financial Statements

31 December 2011

## 2. Summary of significant accounting policies (cont'd)

### 2.23 Taxes (cont'd)

#### (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 recognised 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 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.

### 2.25 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.

### 2.26 Contingencies

A contingent liability is:

- (a) a possible obligation that arises from past events and whose existence will be confirmed only by the occurrence or non-occurrence of one or more uncertain future events not wholly within the control of the Group; or
- (b) a present obligation that arises from past events but is not recognised because:
  - (i) It is not probable that an outflow of resources embodying economic benefits will be required to settle the obligation; or
  - (ii) The amount of the obligation cannot be measured with sufficient reliability.

A contingent asset is a possible asset that arises from past events and whose existence will be confirmed only by the occurrence or non-occurrence of one or more uncertain future events not wholly within the control of the Group.

Contingent liabilities and assets are not recognised on the balance sheet of the Group.

# Notes to the Financial Statements

31 December 2011

## 2. Summary of significant accounting policies (cont'd)

### 2.27 Related parties

A related party is defined as follows:

- (a) A person or a close member of that person's family is related to the Group and Company if that person:
  - (i) Has control or joint control over the Company;
  - (ii) Has significant influence over the Company; or
  - (iii) Is a member of the key management personnel of the Group or Company or of a parent of the Company.
  
- (b) An entity is related to the Group and the Company if any of the following conditions applies:
  - (i) The entity and the Company are members of the same group (which means that each parent, subsidiary and fellow subsidiary is related to the others).
  - (ii) One entity is an associate or joint venture of the other entity (or an associate or joint venture of a member of a group of which the other entity is a member).
  - (iii) Both entities are joint ventures of the same third party.
  - (iv) One entity is a joint venture of a third entity and the other entity is an associate of the third entity.
  - (v) The entity is a post-employment benefit plan for the benefit of employees of either the Company or an entity related to the Company. If the Company is itself such a plan, the sponsoring employers are also related to the Company.
  - (vi) The entity is controlled or jointly controlled by a person identified in (a).
  - (vii) A person identified in (a) (i) has significant influence over the entity or is a member of the key management personnel of the entity (or of a parent of the entity).

# Notes to the Financial Statements

31 December 2011

## 3. Property, plant and equipment

| Group                                     | Computers<br>US\$ | Office<br>equipment<br>US\$ | Furniture<br>and fittings<br>US\$ | Renovation<br>US\$ | Plant and<br>machinery<br>US\$ | Factory<br>equipment<br>US\$ | Total<br>US\$ |
|---|-------------------|-----------------------------|-----------------------------------|--------------------|--------------------------------|------------------------------|---------------|
| <b>Cost</b>                               |                   |                             |                                   |                    |                                |                              |               |
| At 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 and<br>1 January 2011 | 125,258           | 88,663                      | 66,257                            | 507,795            | 12,586,010                     | 62,209                       | 13,436,192    |
| Additions                                 | 3,199             | 61,744                      | 262,123                           | 694,471            | 552,059                        | 43,678                       | 1,617,274     |
| Written off                               | (3,905)           | (11,005)                    | (7,973)                           | (432,446)          | (240,373)                      | (182)                        | (695,884)     |
| At 31 December 2011                       | 124,552           | 139,402                     | 320,407                           | 769,820            | 12,897,696                     | 105,705                      | 14,357,582    |
| <b>Accumulated depreciation</b>           |                   |                             |                                   |                    |                                |                              |               |
| At 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 and<br>1 January 2011 | 95,331            | 82,160                      | 35,967                            | 321,933            | 4,117,897                      | 45,036                       | 4,698,324     |
| Charge for the year                       | 19,917            | 12,208                      | 55,897                            | 104,598            | 1,307,373                      | 19,152                       | 1,519,145     |
| Written off                               | (2,479)           | (10,369)                    | (3,741)                           | (344,125)          | (159,718)                      | (182)                        | (520,614)     |
| At 31 December 2011                       | 112,769           | 83,999                      | 88,123                            | 82,406             | 5,265,552                      | 64,006                       | 5,696,855     |
| <b>Net book value</b>                     |                   |                             |                                   |                    |                                |                              |               |
| At 31 December 2011                       | 11,783            | 55,403                      | 232,284                           | 687,414            | 7,632,144                      | 41,699                       | 8,660,727     |
| At 31 December 2010                       | 29,927            | 6,503                       | 30,290                            | 185,862            | 8,468,113                      | 17,173                       | 8,737,868     |

### Assets pledged as security

The Group's plant and machinery with carrying amounts of approximately US\$4,289,200 (2010: US\$5,186,400) are subject to a fixed charge as security for bank facilities (Note 10).

# Notes to the Financial Statements

31 December 2011

## 4. Investment in subsidiary

|                 | Company          |              |
|-----------------|------------------|--------------|
|                 | 2011<br>US\$     | 2010<br>US\$ |
| Shares, at cost | <b>7,197,408</b> | 7,197,408    |

| Name                                      | Country of incorporation | Principal activities                         | Proportion (%) of ownership interest |      |
|---|--------------------------|--|--------------------------------------|------|
|   |                          |  | 2011                                 | 2010 |
| Smartflex Technology Pte Ltd <sup>1</sup> | Singapore                | Assembly and testing of Smartcard IC modules | <b>100</b>                           | 100  |

<sup>1</sup> Audited by Ernst & Young LLP, Singapore.

## 5. Inventories

|  | Group             |              |
|--|-------------------|--------------|
|  | 2011<br>US\$      | 2010<br>US\$ |
| <b>Balance sheet:</b>  |                   |              |
| At cost:   |                   |              |
| Raw materials  | <b>2,705,485</b>  | 1,055,428    |
| Consumables  | <b>113,636</b>    | 82,852       |
| Spare parts  | <b>64,998</b>     | 67,714       |
| Finished goods   | <b>–</b>          | 44,142       |
| Raw materials in transit                                       | <b>199,481</b>    | –            |
|  | <b>3,083,600</b>  | 1,250,136    |
| <b>Statement of comprehensive income:</b>                      |                   |              |
| Inventories recognised as an expense in cost of sales          | <b>16,043,286</b> | 17,198,982   |
| Inclusive of writeback of allowance for inventory obsolescence | <b>(9,913)</b>    | –            |



# Notes to the Financial Statements

31 December 2011

## 6. Trade and other receivables

|                                   | Group            |              |
|-----------------------------------|------------------|--------------|
|                                   | 2011<br>US\$     | 2010<br>US\$ |
| Trade receivables                 | 3,052,699        | 3,754,235    |
| GST recoverable                   | 5,191            | 129,958      |
|                                   | <b>3,057,890</b> | 3,884,193    |
| Deposits                          | 26,469           | 41,131       |
| Total trade and other receivables | <b>3,084,359</b> | 3,925,324    |
| Add: Cash and cash equivalents    | <b>3,281,227</b> | 2,847,624    |
| Total loans and receivables       | <b>6,365,586</b> | 6,772,948    |

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

|                  | Group        |              |
|------------------|--------------|--------------|
|                  | 2011<br>US\$ | 2010<br>US\$ |
| Singapore Dollar | 4,534        | -            |

### Trade receivables

Trade receivables are non-interest bearing and are generally on 30 to 70 days' terms. They are recognised at their original amounts which represent their fair values on recognition.

### Receivables that are past due but not impaired

The Group has trade receivables amounting to US\$773,125 (2010: US\$630,734) that are past due 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          |              |
|-----------------------------|----------------|--------------|
|                             | 2011<br>US\$   | 2010<br>US\$ |
| Trade receivables past due: |                |              |
| Less than 30 days           | 649,874        | 630,734      |
| 30 to 60 days               | 123,251        | -            |
|                             | <b>773,125</b> | 630,734      |

### Receivables that are impaired

The Group does not have any receivables that are impaired as at 31 December 2011 and 2010.

# Notes to the Financial Statements

31 December 2011

## 7. Cash and cash equivalents

|                           | Group            |              | Company      |              |
|---------------------------|------------------|--------------|--------------|--------------|
|                           | 2011<br>US\$     | 2010<br>US\$ | 2011<br>US\$ | 2010<br>US\$ |
| Cash at banks and on hand | <b>3,281,227</b> | 2,847,624    | <b>7,647</b> | 7,126        |

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

|                  | Group            |              | Company      |              |
|------------------|------------------|--------------|--------------|--------------|
|                  | 2011<br>US\$     | 2010<br>US\$ | 2011<br>US\$ | 2010<br>US\$ |
| Singapore Dollar | <b>1,954,685</b> | 963,355      | <b>7,647</b> | 7,126        |
| Euro             | <b>1,719</b>     | 4,766        | –            | –            |

## 8. Trade payables

|   | Group            |              |
|---|------------------|--------------|
|   | 2011<br>US\$     | 2010<br>US\$ |
| Trade payables  | <b>2,246,241</b> | 1,308,034    |
| Deposits received and other payables (Note 9)         | <b>55,450</b>    | 51,095       |
| Loans and borrowings (Note 10)                        | <b>2,499,782</b> | 2,680,014    |
| Total financial liabilities carried at amortised cost | <b>4,801,473</b> | 4,039,143    |

Trade payables denominated in foreign currencies as at 31 December are as follows:

|                     | Group          |              |
|---------------------|----------------|--------------|
|                     | 2011<br>US\$   | 2010<br>US\$ |
| Singapore Dollar    | <b>342,465</b> | 83,954       |
| Euro                | <b>199,105</b> | 118,051      |
| Great British Pound | <b>10,543</b>  | –            |



# Notes to the Financial Statements

31 December 2011

## 9. Other payables and accruals

|                                      | Group          |              | Company       |              |
|--------------------------------------|----------------|--------------|---------------|--------------|
|                                      | 2011<br>US\$   | 2010<br>US\$ | 2011<br>US\$  | 2010<br>US\$ |
| Accruals                             | <b>798,267</b> | 745,744      | <b>74,091</b> | 74,875       |
| Deposits received and other payables | <b>55,450</b>  | 51,095       | –             | –            |
|                                      | <b>853,717</b> | 796,839      | <b>74,091</b> | 74,875       |

## 10. Loans and borrowings

|  | Maturity | Group            |              |
|--|----------|------------------|--------------|
|  |          | 2011<br>US\$     | 2010<br>US\$ |
| Bank loans (current):                  |          |                  |              |
| – Euro loan                            | 2012     | <b>103,103</b>   | 278,766      |
| – USD loans                            | 2012     | <b>831,107</b>   | 1,832,363    |
| – USD trust receipts payable to banks  | 2012     | <b>1,383,461</b> | 568,885      |
| – Euro trust receipts payable to banks | 2012     | <b>90,547</b>    | –            |
|  |          | <b>2,408,218</b> | 2,680,014    |
| Bank loans (non-current):              |          |                  |              |
| – Euro loans                           | 2013     | <b>41,398</b>    | –            |
| – USD loans                            | 2013     | <b>50,166</b>    | –            |
|  |          | <b>91,564</b>    | –            |

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 1.19% to 2.85% (2010: 1.24% to 2.32%) per annum.

During the financial year ended 31 December 2010, the Group classified 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.

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 classified the above bank loans to current liabilities as at 31 December 2010. The reclassification had no effect on the net asset or the results of the Group.

In the current financial year, for term loans, the Group obtained waiver letters from the respective lenders. As such, these bank loans were classified as non-current liabilities as at 31 December 2011, based on the scheduled repayment dates in the loan facility agreements.

# Notes to the Financial Statements

31 December 2011

## 11. Deferred tax liability

|   | <b>Group</b>     |           |
|---|------------------|-----------|
|   | <b>2011</b>      | 2010      |
|   | <b>US\$</b>      | US\$      |
| Deferred tax liability                                | <b>1,259,362</b> | 1,111,548 |
| This can be analysed as follows:                      |                  |           |
| Differences in depreciation for tax purposes          | <b>1,287,520</b> | 1,119,251 |
| Provision for accrued leave                           | <b>(7,072)</b>   | (7,703)   |
| Deferred operating lease incentive (rent free period) | <b>(21,086)</b>  | –         |
|   | <b>1,259,362</b> | 1,111,548 |

### Tax consequence of proposed dividends

There are no income tax consequences (2010: 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

|  | <b>Group and Company</b> |                  |               |             |
|--|--------------------------|------------------|---------------|-------------|
|  | <b>2011</b>              | <b>2011</b>      | 2010          | 2010        |
|  | <b>No. of shares</b>     | <b>US\$</b>      | No. of shares | US\$        |
|  | <b>'000</b>              | <b>US\$</b>      | <b>'000</b>   | <b>US\$</b> |
| At 1 January                               | <b>82,440</b>            | <b>9,125,528</b> | 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                             | <b>82,440</b>            | <b>9,125,528</b> | 82,440        | 9,125,528   |

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 2011

## 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

|               | <b>Group</b>      |            |
|---------------|-------------------|------------|
|               | <b>2011</b>       | 2010       |
|               | <b>US\$</b>       | US\$       |
| Sale of goods | <b>25,332,870</b> | 26,834,314 |

## 15. Other operating income

|                                | <b>Group</b> |       |
|--------------------------------|--------------|-------|
|                                | <b>2011</b>  | 2010  |
|                                | <b>US\$</b>  | US\$  |
| Finance income                 | <b>405</b>   | 354   |
| Other income                   | <b>4,263</b> | 2,262 |
| Income from Jobs Credit Scheme | -            | 7,288 |
|                                | <b>4,668</b> | 9,904 |

## 16. Finance expense

|                                | <b>Group</b>  |        |
|--------------------------------|---------------|--------|
|                                | <b>2011</b>   | 2010   |
|                                | <b>US\$</b>   | US\$   |
| Interest expense on bank loans | <b>36,561</b> | 62,312 |

# Notes to the Financial Statements

31 December 2011

## 17. Profit before taxation

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

|                                       | <b>Group</b>  |         |
|---------------------------------------|---------------|---------|
|                                       | <b>2011</b>   | 2010    |
|                                       | <b>US\$</b>   | US\$    |
| Audit fees:                           |               |         |
| – Auditors of the Company             | <b>35,799</b> | 52,465  |
| Non-audit fees:                       |               |         |
| – Auditors of the Company             | <b>9,718</b>  | 196,695 |
| – Other auditors                      | <b>14,563</b> | 17,249  |
| <b>Total audit and non-audit fees</b> | <b>60,080</b> | 266,409 |

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

|  | <b>Group</b>     |           |
|--|------------------|-----------|
|  | <b>2011</b>      | 2010      |
|  | <b>US\$</b>      | US\$      |
| Depreciation of property, plant and equipment        | <b>1,519,145</b> | 1,384,200 |
| Property, plant and equipment written off            | <b>175,270</b>   | –         |
| (Writeback of)/allowance for inventory obsolescence  | <b>(9,913)</b>   | –         |
| Rental expense – operating lease                     | <b>455,277</b>   | 237,895   |
| IPO expenses   | –                | 626,990   |
| Exchange differences, net                            | <b>51,739</b>    | (117,264) |
| Personnel and related costs:                         |                  |           |
| – salaries and bonus                                 | <b>3,030,220</b> | 3,200,429 |
| – directors' fees                                    | <b>62,943</b>    | 39,536    |
| – employer's contributions to Central Provident Fund | <b>229,580</b>   | 173,063   |



# Notes to the Financial Statements

31 December 2011

## 18. Taxation

### (a) Major components of income tax expense

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

|  | <b>Group</b>     |         |
|--|------------------|---------|
|  | <b>2011</b>      | 2010    |
|  | <b>US\$</b>      | US\$    |
| Current income tax:  |                  |         |
| Current income taxation  | <b>327,729</b>   | 326,473 |
| Over provision in respect of previous years                            | <b>(326,473)</b> | –       |
|  | <b>1,256</b>     | 326,473 |
| Deferred tax:  |                  |         |
| Origination and reversal of temporary differences                      | <b>(65,918)</b>  | 251,045 |
| Under provision of deferred tax liability in respect of previous years | <b>213,732</b>   | –       |
|  | <b>147,814</b>   | 251,045 |
| Tax expense recognised in the statement of comprehensive income        | <b>149,070</b>   | 577,518 |

### (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:–

|  | <b>Group</b>     |           |
|--|------------------|-----------|
|  | <b>2011</b>      | 2010      |
|  | <b>US\$</b>      | US\$      |
| Accounting profit before income tax                                    | <b>1,493,458</b> | 2,635,363 |
| Tax expense on profit before taxation at 17% (2010: 17%)               | <b>253,888</b>   | 448,012   |
| Income not subject to tax  | <b>(684)</b>     | (5,056)   |
| Non-deductible expenses  | <b>47,839</b>    | 159,515   |
| Effect of partial tax exemption and tax relief                         | <b>(39,232)</b>  | (19,053)  |
| Over provision in respect of previous years                            | <b>(326,473)</b> | –         |
| Under provision of deferred tax liability in respect of previous years | <b>213,732</b>   | –         |
| Others   | –                | (5,900)   |
| Tax expense  | <b>149,070</b>   | 577,518   |

# Notes to the Financial Statements

31 December 2011

## 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:

|  | <b>Group</b>     |           |
|--|------------------|-----------|
|  | <b>2011</b>      | 2010      |
|  | <b>US\$</b>      | US\$      |
| Profit net of tax attributable to shareholders | <b>1,344,388</b> | 2,057,845 |

|   | <b>Number of</b> | Number of |
|---|------------------|-----------|
|   | <b>shares</b>    | shares    |
|   | <b>'000</b>      | '000      |
| Weighted average number of ordinary shares for basic and diluted earnings per share computation | <b>82,440</b>    | 75,940    |



# Notes to the Financial Statements

31 December 2011

## 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 2011 and 2010 are as follows:

#### (a) Revenue

|            | 2011     |     | 2010     |     |
|------------|----------|-----|----------|-----|
|            | US\$'000 | %   | US\$'000 | %   |
| Europe     | 5,956    | 24  | 5,391    | 20  |
| East Asia  | 3,350    | 13  | 7,691    | 28  |
| South Asia | 15,294   | 60  | 13,644   | 51  |
| Others     | 733      | 3   | 108      | 1   |
| Total      | 25,333   | 100 | 26,834   | 100 |

#### (b) Non-current assets

Non-current assets of US\$8,660,727 (2010: US\$8,737,868) which consist of property, plant and equipment are located in South Asia for the year ended 31 December 2011.

#### (c) Information about major customers

Revenues from three customers of the Group's single segment represent approximately US\$12,372,803 (2010: 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 2011

## 21. Related party transactions

|  | <b>Group</b>   |         |
|--|----------------|---------|
|  | <b>2011</b>    | 2010    |
|  | <b>US\$</b>    | US\$    |
| <b>(a) Sales and purchases of goods and services</b>   |                |         |
| Related party:   |                |         |
| Rental expense paid to a company related to a director | –              | 228,573 |
| Utilities expense                                      | –              | 369,389 |
| <b>(b) Compensation of key management personnel</b>    |                |         |
| Short-term employee benefits                           | <b>379,772</b> | 232,652 |
| Central provident fund contributions                   | <b>19,662</b>  | 9,411   |
|  | <b>399,434</b> | 242,063 |
| <i>Comprise amounts paid to:</i>                       |                |         |
| Directors of the Company                               | <b>399,434</b> | 242,063 |

## 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:

|  | <b>Group</b>     |         |
|--|------------------|---------|
|  | <b>2011</b>      | 2010    |
|  | <b>US\$</b>      | US\$    |
| Not later than 1 year                        | <b>360,865</b>   | 127,828 |
| Later than 1 year but not later than 5 years | <b>1,412,925</b> | 3,977   |

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 2011

## 23. Dividends

|   | Group          |              | Company        |              |
|---|----------------|--------------|----------------|--------------|
|   | 2011<br>US\$   | 2010<br>US\$ | 2011<br>US\$   | 2010<br>US\$ |
| <b>Declared and paid during the financial year</b>  |                |              |                |              |
| Final exempt (one-tier) dividend 2011 of SGD1 cents (2010: SGD2.5 cents) per ordinary share       | <b>670,451</b> | 617,012      | <b>670,451</b> | –            |
| <b>Proposed but not recognised as a liability as at 31 December:</b>                              |                |              |                |              |
| <i>Dividends on ordinary shares, subject to shareholders approval at the AGM</i>                  |                |              |                |              |
| Final exempt (one-tier) dividend for 2011 of SGD0.65 cents (2010: SGD1 cents) per ordinary shares | <b>427,290</b> | 639,040      | <b>427,290</b> | 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. As at 31 December, 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 2011

## 24. Financial risk management objectives and policies (cont'd)

### 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% (2010: 1%) change in Singapore Dollar ("SGD"), Euro ("EUR") and Great British Pound ("GBP"), with all other variables held constant, on the Group's profit after taxation.

|             |              | <b>Group</b>     |           |
|-------------|--------------|------------------|-----------|
|             |              | <b>2011</b>      | 2010      |
|             |              | <b>US\$</b>      | US\$      |
|             |              | <b>Profit</b>    | Profit    |
|             |              | <b>after tax</b> | after tax |
| Against USD |              |                  |           |
| SGD         | Strengthened | <b>11,900</b>    | 2,118     |
|             | Weakened     | <b>(11,900)</b>  | (2,118)   |
| EUR         | Strengthened | <b>(3,589)</b>   | (3,254)   |
|             | Weakened     | <b>3,589</b>     | 3,254     |
| GBP         | Strengthened | <b>(88)</b>      | –         |
|             | Weakened     | <b>88</b>        | –         |

### 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.

#### *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.



# Notes to the Financial Statements

31 December 2011

## 24. Financial risk management objectives and policies (cont'd)

### Credit risk (cont'd)

#### *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:

|                                  | 2011             |            | 2010      |            |
|----------------------------------|------------------|------------|-----------|------------|
|                                  | US\$             | % of total | US\$      | % of total |
| <b>By geographical segments:</b> |                  |            |           |            |
| South Asia                       | <b>2,353,350</b> | <b>77</b>  | 1,531,672 | 51         |
| East Asia                        | <b>134,345</b>   | <b>4</b>   | 1,335,564 | 29         |
| Europe                           | <b>551,172</b>   | <b>18</b>  | 883,466   | 20         |
| Others                           | <b>13,832</b>    | <b>1</b>   | 3,533     | –          |
| Total                            | <b>3,052,699</b> | <b>100</b> | 3,754,235 | 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 cash equivalents 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 2011

## 24. Financial risk management objectives and policies (cont'd)

### 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% (2010: 1%) change in the interest rates lower/higher with all other variables held constant on the Group's profit after tax.

|                              | <b>2011</b><br><b>US\$</b><br><b>Profit after tax</b> | 2010<br>US\$<br>Profit after tax |
|------------------------------|---|----------------------------------|
| Increase in 1% interest rate | <b>(160)</b>  | (401)                            |
| Decrease in 1% interest rate | <b>160</b>  | 401                              |

### 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, 96% (2010: 100%) 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 2011

## 24. Financial risk management objectives and policies (cont'd)

### Liquidity risk (cont'd)

*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  | 2011                        |                              |                            |               | 2010                        |                              |                            | Total<br>US\$ |
|--|-----------------------------|------------------------------|----------------------------|---------------|-----------------------------|------------------------------|----------------------------|---------------|
|  | One year<br>or less<br>US\$ | One to<br>five years<br>US\$ | Over<br>five years<br>US\$ | Total<br>US\$ | One year<br>or less<br>US\$ | One to<br>five years<br>US\$ | Over<br>five years<br>US\$ |               |
| <b>Financial assets:</b>                                 |                             |                              |                            |               |                             |                              |                            |               |
| Trade and other receivables                              | 3,084,359                   | -                            | -                          | 3,084,359     | 3,925,324                   | -                            | -                          | 3,925,324     |
| Cash and cash equivalents                                | 3,281,227                   | -                            | -                          | 3,281,227     | 2,847,624                   | -                            | -                          | 2,847,624     |
| Total undiscounted financial assets                      | 6,365,586                   | -                            | -                          | 6,365,586     | 6,772,948                   | -                            | -                          | 6,772,948     |
| <b>Financial liabilities:</b>                            |                             |                              |                            |               |                             |                              |                            |               |
| Trade payables   | 2,246,241                   | -                            | -                          | 2,246,241     | 1,308,034                   | -                            | -                          | 1,308,034     |
| Other payables   | 853,717                     | -                            | -                          | 853,717       | 796,839                     | -                            | -                          | 796,839       |
| Loans and borrowings                                     | 2,408,218                   | 91,564                       | -                          | 2,499,782     | 2,680,014                   | -                            | -                          | 2,680,014     |
| Total undiscounted financial liabilities                 | 5,508,176                   | 91,564                       | -                          | 5,599,740     | 4,784,887                   | -                            | -                          | 4,784,887     |
| Total net undiscounted<br>financial assets/(liabilities) | 857,410                     | (91,564)                     | -                          | 765,846       | 1,988,061                   | -                            | -                          | 1,988,061     |

# Notes to the Financial Statements

31 December 2011

## 24. Financial risk management objectives and policies (cont'd)

### Liquidity risk (cont'd)

|                                     | One year<br>or less<br>US\$ | One to<br>five years<br>US\$ | Over<br>five years<br>US\$ | Total<br>US\$ |
|-------------------------------------|-----------------------------|------------------------------|----------------------------|---------------|
| <b>Company</b>                      |                             |                              |                            |               |
| <b>2011</b>                         |                             |                              |                            |               |
| <b>Financial assets:</b>            |                             |                              |                            |               |
| Cash and cash equivalents           | 7,647                       | –                            | –                          | 7,647         |
| Amounts due from subsidiary         | 1,907,010                   | –                            | –                          | 1,907,010     |
| Total undiscounted financial assets | 1,914,657                   | –                            | –                          | 1,914,657     |
| <b>2010</b>                         |                             |                              |                            |               |
| <b>Financial assets:</b>            |                             |                              |                            |               |
| Cash and cash equivalents           | 7,126                       | –                            | –                          | 7,126         |
| Amounts due from subsidiary         | 1,233,510                   | –                            | –                          | 1,233,510     |
| Total undiscounted financial assets | 1,240,636                   | –                            | –                          | 1,240,636     |



# Notes to the Financial Statements

31 December 2011

## 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.

## 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 2011 and 31 December 2010.

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% (2010: 150%) and net worth not less than SGD4,000,000 (2010: SGD4,000,000). 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.

# Notes to the Financial Statements

31 December 2011

## 26. Capital management (cont'd)

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

|                           | <b>Group</b>       |             |
|---------------------------|--------------------|-------------|
|                           | <b>2011</b>        | 2010        |
|                           | <b>US\$</b>        | US\$        |
| Total gross debt:         |                    |             |
| Loans and borrowings      | <b>2,499,782</b>   | 2,680,014   |
| Shareholders' funds:      |                    |             |
| Share capital             | <b>9,125,528</b>   | 9,125,528   |
| Revenue reserves          | <b>7,103,167</b>   | 6,429,230   |
| Merger reserve            | <b>(4,988,397)</b> | (4,988,397) |
|                           | <b>11,240,298</b>  | 10,566,361  |
| Gross debt equity ratio   | <b>0.22</b>        | 0.25        |
| Cash and cash equivalents | <b>3,281,227</b>   | 2,847,624   |
| Less: Total gross debt    | <b>(2,499,782)</b> | (2,680,014) |
| Net asset position        | <b>781,445</b>     | 167,610     |

## 27. Events occurring after the reporting period

On 8 February 2012, the Group announced that a wholly-owned subsidiary is newly incorporated in Singapore known as Smartflex Innovation Pte. Ltd. Its principal activities are those of development, assembly and testing of smart card solution.

## 28. Authorisation of financial statements

The audited financial statements as at and for the financial year ended 31 December 2011 were authorised for issue in accordance with a resolution of directors on 21 March 2012.



# Shareholdings Statistics

As at 29 March 2012

|                       |   |                    |
|-----------------------|---|--------------------|
| 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 29 March 2012

| 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                    | 565,001         | 0.69  | 51,170,000 *    | 62.07 |
| Tan Geok Moey                    | –               | –     | 51,170,000 *    | 62.07 |
| Tan Yoke Hong                    | –               | –     | 51,170,000 *    | 62.07 |
| Ho Yuet Hoe Jenny @ Ho Yuet Heng | –               | –     | 14,150,000 **   | 17.16 |

\* Mr Tan Tong Guan, Ms Tan Geok Moey and Ms Tan Yoke Hong are deemed to have an interest in the shares held by 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 29 March 2012, approximately 15.38% 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 Catalist of the SGX-ST Listing Manual.

# Shareholdings Statistics

As at 29 March 2012

## DISTRIBUTION OF SHAREHOLDINGS

| SIZE OF SHAREHOLDINGS | NO. OF SHAREHOLDERS | %             | NO. OF SHARES     | %             |
|-----------------------|---------------------|---------------|-------------------|---------------|
| 1 – 999               | 0                   | 0.00          | 0                 | 0.00          |
| 1,000 – 10,000        | 353                 | 73.85         | 1,257,000         | 1.53          |
| 10,001 – 1,000,000    | 122                 | 25.52         | 12,383,001        | 15.02         |
| 1,000,001 AND ABOVE   | 3                   | 0.63          | 68,800,001        | 83.45         |
| <b>TOTAL</b>          | <b>478</b>          | <b>100.00</b> | <b>82,440,002</b> | <b>100.00</b> |

## 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                         | 845,000           | 1.02         |
| 6  | ANG AH NUI                          | 772,000           | 0.94         |
| 7  | ANG SIN LIU                         | 772,000           | 0.94         |
| 8  | CIMB SECURITIES (SINGAPORE) PTE LTD | 685,000           | 0.83         |
| 9  | TAN TONG GUAN                       | 565,001           | 0.69         |
| 10 | LIM KIAN HENG                       | 500,000           | 0.61         |
| 11 | LIM SOO YONG                        | 450,000           | 0.55         |
| 12 | TAN KOON HUA (CHEN KUNHUA)          | 305,000           | 0.37         |
| 13 | SIM AI LIAN                         | 290,000           | 0.35         |
| 14 | LIM KIAT HUA                        | 230,000           | 0.28         |
| 15 | MARCUS STEPHAN HAUER                | 230,000           | 0.28         |
| 16 | PHILLIP SECURITIES PTE LTD          | 222,000           | 0.27         |
| 17 | SIO SIT PO                          | 220,000           | 0.27         |
| 18 | ANG CHIAN POH                       | 200,000           | 0.24         |
| 19 | ONG BEE DEE                         | 200,000           | 0.24         |
| 20 | WONG CHOY PENG                      | 200,000           | 0.24         |
|    | <b>TOTAL</b>                        | <b>76,486,002</b> | <b>92.78</b> |



# Notice of Annual General Meeting

NOTICE IS HEREBY GIVEN that the Second Annual General Meeting of the Company will be held at SGX Auditorium, 2 Shenton Way, #02-00 Podium, SGX Centre 1, Singapore 068804 on Thursday, 26 April 2012 at 3.30 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 2011. **Resolution 1**
2. To declare a first & final tax exempt (one-tier) dividend of 0.65 Singapore cents per ordinary share for the financial year ended 31 December 2011. **Resolution 2**
3. To re-elect the following Directors each of whom will retire pursuant to Article 91 of the Articles of Association of the Company and who, being eligible, will offer themselves for re-election:
  - (a) Dr Eric Ng Eng Seng **Resolution 3**
  - (b) Mr Chan Kum Kit **Resolution 4**
  - *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*
4. To approve the payment of Directors' fees of S\$82,000 for the financial year ended 31 December 2011 (2010: S\$68,000). **Resolution 5**
5. To re-appoint Ernst & Young LLP as Independent Auditors of the Company and to authorise the Directors to fix their remuneration. **Resolution 6**
6. To transact any other ordinary business that may properly be transacted at an 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 7**

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

# Notice of Annual General Meeting

- (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:
- (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  
9 April 2012



# Notice of Annual General Meeting

## 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 27 Ubi Road 4, #04-04, Singapore 408618, not less than 48 hours before the time for holding the above Annual General Meeting.

## EXPLANATORY NOTES ON SPECIAL BUSINESS TO BE TRANSACTED

The proposed Ordinary Resolution 7, 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 4 May 2012 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 3 May 2012 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 3 May 2012 will be entitled to the proposed dividend. The proposed dividend, if approved by members at the Annual General Meeting, will be paid on 17 May 2012.

# 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, this Annual Report 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/<br>Passport No. | Proportion of<br>Shareholdings<br>(%) |
|--------------------------------|---------|-----------------------|---------------------------------------|
| (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 Thursday, 26 April 2012 at 3.30 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 Dr Eric Ng Eng Seng as Director                       |     |         |
| 4   | Re-election of Mr Chan Kum Kit as Director                           |     |         |
| 5   | Approval of Directors' fees  |     |         |
| 6   | Re-appointment of Ernst & Young LLP as Independent Auditors          |     |         |
| 7   | Authority to Directors to issue shares and/or convertible securities |     |         |

Dated this \_\_\_\_\_ day of \_\_\_\_\_ 2012

| 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 27 Ubi Road 4, #04-04, Singapore 408618 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.**  
27 Ubi Road 4, #04-04  
Singapore 408618

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**Smartflex Holdings Ltd.**

(Company Registration No. 201003501R)

**Principal Place of Business:**

**27 Ubi Road 4, #04-04, Singapore 408618**

**Tel : + 65 6787 7133 Fax : + 65 6787 1741**