

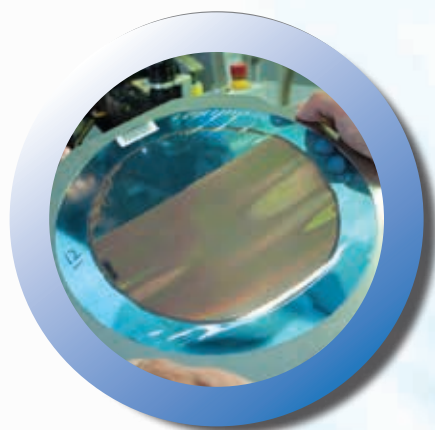


**Smartflex Holdings Ltd.**  
(Company Registration No. 201003501R)



# Contents

- 1 Vision & Mission
- 2 Corporate Profile
- 3 Financial Highlights
- 4 Chairman's Statement
- 6 Directors Profile
- 8 Operating & Financial Review
- 10 Key Management Profile
- 11 Corporate Information
- 12 Financial Contents



This Annual Report and its contents have been reviewed by the Company's sponsor, RHT Capital Pte Ltd ("Sponsor"), for compliance with the relevant rules of the Singapore Exchange Securities Trading Limited (the "SGX-ST") this being the SGXST Listing Manual Section B: Rules of the Catalist ("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 Chew Kok Liang, Registered Professional, RHT Capital Pte Ltd, Six Battery Road, #10-01, Singapore 049909, telephone (65) 6381 6757.



## **Vision**

To be a global leader in providing solutions for identity modules.

## **Mission**

We are committed to technological innovation, building strategic alliances and increasing market share.

## Corporate Profile



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

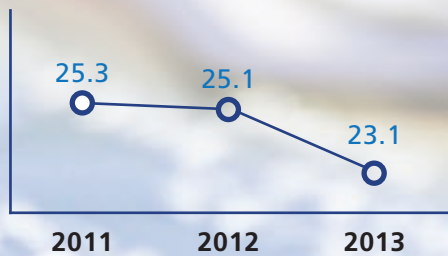
Encompassing an area of approximately 3,500 sq m, our office/manufacturing facility in Singapore houses equipment, with wafer mapping and dicing, die attach, wire bonding, encapsulation, and OS loading, and testing and inspection capabilities. With our full range of services, we are able to provide complete and innovative manufacturing solutions to our customers from Southeast Asia, Commonwealth of Independent States, Europe, India, PRC, South America and Korea.

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.

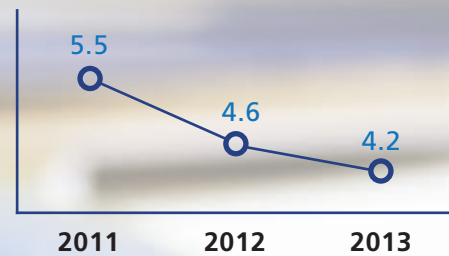
# Financial Highlights

	2013	2012	2011
	US\$ million	US\$ million	US\$ million
Revenue	23.1	25.1	25.3
Gross profit	4.2	4.6	5.5
(Loss)/profit after tax	(0.04)	0.6	1.3
Shareholders' funds	12.3	11.4	11.2

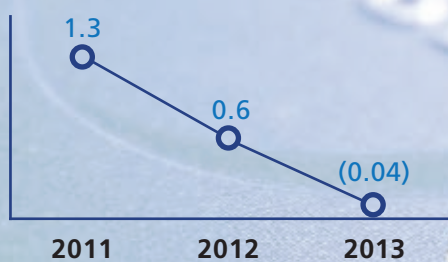
**Revenue** US\$ million



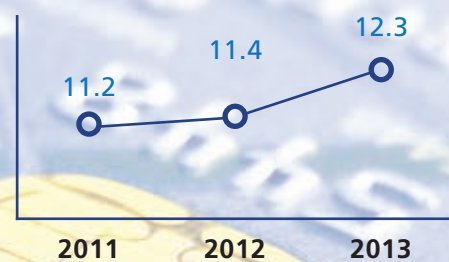
**Gross profit** US\$ million



**(Loss)/profit after tax** US\$ million



**Shareholders' funds** US\$ million



# Chairman's Statement



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 2013 (FY2013).



## Overview

2013 proved to be a difficult year as we faced challenges on several fronts. Our competitors engaged in aggressive pricing which inevitably led to price erosion. This in turn resulted in decreased demand for the Group's products.

While a lower revenue in 1H 2013 was in line with the market conditions, we were successful in improving the Group's 2H 2013 financial results as the industry landscape improved. The Group recorded a revenue of approximately US\$10.4 million in 1H 2013, while 2H 2013 came in 22.1% higher at US\$12.7 million. On a full year basis, the Group reported a nominal loss of less than US\$0.05 million, compared to a net profit of US\$0.6 million in FY2012.

Despite the challenges, we remain undeterred, and took the opportunity to lay a strong foundation across the Group to better position ourselves to ride on opportunities when the market turns around.

We made headway in executing our plan to diversify our product lines, where concerted efforts were made to widen our product offerings. While the mainstay of our customers are primarily in the telecommunications and banking sectors in Asia, inroads have also been made to further boost our product portfolio with new RFID (Radio Frequency Identification), Dual Interface and Contactless devices. These are primarily targeted at the banking sector and the micro-payment market, and are expected to provide us with better margins.

Indeed, I am pleased to also report that the trial run of our new smart card-based product by our joint venture company, Smartflex Innovation, also yielded encouraging results. Prototypes were developed and extensive field tests conducted and concluded. Patent application for the product has been filed and commercial roll-out is expected in 1H2014.

We are truly excited with the prospects of this new product. With this latest development, we will strive to quicken our pace of diversifying into other product lines.

In terms of geographical markets, China and India still present interesting opportunities given their immense population size. Furthermore, these countries have ongoing nation-wide projects in telecommunications and banking which require smart cards, and we intend to further entrench ourselves in these markets.

One noteworthy achievement in 2013 was the Group's success in winning new customers, some of which are global multinationals.

Additionally, on 5 March 2014, the Group announced its appointment as official supplier of RFID tags to TAGSYS RFID, a provider of item-level inventory management system and leader in the global RFID industry. This is a milestone win as it allows the Group to make inroads into the fast-growing RFID market. It is also aligned to our strategy to diversify into other industry segments.

## Looking Ahead to 2014

Looking ahead, we will be focusing on driving quality growth and intend to see:

- Quality in top-line growth driven by improving volumes, appropriate pricing and higher value products
- Quality in operating earnings driven by strong margin management
- Quality in our products, our marketing and after-sales service, and our management

## Appreciation

In conclusion, I would like to thank all shareholders and customers for their support and confidence in Smartflex. Special thanks also to the Board of Directors for their counsel and advice, and employees for their unstinting dedication and commitment. The talent capital and calibre of our people have enabled us to navigate through challenging times.

We expect 2014 to be an exciting year and look forward to capitalising on opportunities to drive growth for the Group.

**Mr Tan Tong Guan**  
Co-founder & Executive Chairman

# Directors Profile

## Tan Tong Guan Co-founder and Executive Chairman

Tan Tong Guan, aged 50, co-founder and Executive Chairman, was appointed to the Board on 17 February 2010 and was last reappointed on 27 April 2011. 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 Fellow Chartered Accountant of Singapore with Institute of Singapore Chartered Accountants (ISCA). Mr Tan is the brother of Ms Tan Geok Moey (our Non-Executive Director).

## Eric Ng Eng Seng Co-founder, CEO and Executive Director

Eric Ng, aged 43, co-founder, CEO and Executive Director, was appointed to the Board on 17 February 2010 and was last reappointed on 26 April 2012. Dr Ng is responsible for managing the sales, business development and operations of our Group. Dr Ng brings with him over 10 years of experience in the smart card and semiconductor industries. Dr Ng graduated from Glasgow University in Scotland with a First Class Honours Degree in Engineering and a Doctor of Philosophy (Ph.D.) in Mechanical Engineering.

## Tan Geok Moey Non-Executive Director

Tan Geok Moey, aged 53, Non-Executive Director, was appointed to the Board on 15 March 2010 and was last reappointed on 26 April 2013. 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, aged 61, Independent Director, was appointed to the Board on 15 March 2010 and was last reappointed on 26 April 2012. He is also the chairman of the Audit Committee. He is a founding partner of Verity Partners, and has been a public accountant for more than 25 years. Mr. Chan is an Independent Director and chairman of the audit committee of Sing Holdings Limited, he is also a director of K K Chan Pte Ltd and F C Solution Pte Ltd. Mr Chan holds a Bachelor of Accountancy from the University of Singapore and is a Fellow Chartered Accountant of Singapore with ISCA. Mr Chan is not related to any of the directors, the Company or its 10% shareholders.





Chan Kum Kit, Eric Ng Eng Seng, Tan Tong Guan, Tan Geok Moey, Teo Yi-Dar

**Teo Yi-Dar**  
**Non-Executive and Independent Director**

Teo Yi-Dar, aged 42, was appointed Independent Director of the Company on 22 February 2013 and was last reappointed on 26 April 2013. Mr Teo also sits on the boards of several SGX-listed companies. He is currently the lead independent director and both remuneration committee and nominating committee chairmen for Yangzijiang Shipbuilding (Holdings) Ltd, an independent director and nominating committee chairman for China YuanBang Property Holdings Ltd, and an independent director and both audit committee and nominating committee chairmen for Net Pacific Financial Holdings Ltd. Mr Teo was, in preceding three years, a non-executive director of SGX-listed Sin Heng Heavy Machinery Ltd, HKEx-listed Shengli Oil & Gas Pipe Holdings Limited and Shenzhen-listed Hainan Shuangcheng Pharmaceuticals Co Ltd.

Mr Teo is an Investment Partner with SEAVI Advent Corporation Ltd, the Asian affiliate of Boston-based Advent International private equity group. Mr Teo manages direct investments in Asia, and focuses on the electronics, chemical, engineering and technology segments. Prior to joining SEAVI Advent, he was with Keppel Corporation Ltd., conducting business development activities for Keppel's offshore and marine businesses. Mr Teo started his career as an Engineer in SGS-Thomson Microelectronics.

Mr Teo holds two Masters' degrees; Master of Science Degree in Industrial and Systems Engineering (1998) and Master of Science Degree in Applied Finance (2000) from the National University of Singapore. Mr Teo graduated from the same university with a Bachelor of Electrical Engineering (Honours) in 1996. Mr Teo was awarded the Chartered Financial Analyst by the CFA Institute in 2001.

# Operating & Financial Review

## Review of Income Statement

### Revenue

Geographical Segment	FY2013 revenue (US\$'000)	As % of Group's revenue	FY2012 revenue (US\$'000)	As % of Group's revenue	Increase/ (Decrease) %
Europe	4,636	20	4,537	18	2.2
East Asia	4,184	18	5,725	23	(26.9)
South Asia	12,623	55	14,380	57	(12.2)
Others	1,637	7	427	2	283.4
Total	23,080	100	25,069	100	(7.9)

The Group's revenue decreased by approximately USD2.0 million or 7.9% from USD25.1 million in FY2012 to USD23.1 million in FY2013 due to a fall in demand for the Group's products, attributed mainly to weak demand for SIM card products in the China and India markets as well as competitors' aggressive pricing.

### Gross Profit and Gross Profit Margin

The Group's gross profit decreased by approximately USD0.4 million or 7.6% from USD4.6 million in FY2012 to USD4.2 million in FY2013 due to decrease in sales volume. Gross profit margin remained steady at 18%.

### Other Income

The Group's other income increased by approximately USD0.08 million or 105.4% from USD0.07 million in FY2012 to USD0.15 million in FY2013 mainly due to higher interest income from its joint venture, Smartflex Innovation Pte Ltd and recovery of bad debts that had been provided for in prior period.

### Selling and Distribution Expenses/General and Administrative Expenses

The Group's selling and distribution and general and administrative expenses increased by USD0.5 million from USD4.0 million in FY2012 to USD4.5 million in FY2013 mainly due to professional fee related to patent filing and certification, staff cost and recruitment expense for new staffs.

### Finance Expense

Finance expense decreased by USD0.02 million or 26.2% from USD0.065 million in FY2012 to USD0.048 million in FY2013 due mainly to the reduced usage of trade finance facilities as well as retirement of certain term loans.

### Share of Result of Joint Venture

The joint venture did not generate sales in FY2013 as it only started producing for trials in the last quarter of the year. As such, losses were incurred mainly attributed to administrative costs, material costs and salaries.

### Taxation

Tax credit of USD0.4 million comprised a tax credit of USD0.03 million in respect of FY2012 and a deferred tax adjustment of USD0.3 million due to decrease in temporary difference for plant & equipment by USD1.8 million.

### Net Profit

For the reasons mentioned above, the Group's net loss attributable to equity holders of the Company was USD0.04 million in FY2013 as compared to a net profit of USD0.6 million in FY2012.

## Review of Financial Position

### Non-current Assets

The Group's plant and equipment net of depreciation decreased by approximately USD1.4 million or 17.1% as compared to 31 December 2012. Depreciation remained constant at USD1.7 million and new equipment purchased amounted to USD0.3 million for the period under review.

### Current Assets

The Group's trade and other receivables as at 31 December 2013 increased by approximately USD1.2 million as compared to 31 December 2012 mainly due to significantly higher sales recorded in 4Q 2013 as compared to 4Q 2012.

### Current Liabilities

The Group's loans and borrowings decreased by approximately USD0.9 million or 27.9% as compared to 31 December 2012, mainly due to lower usage of trade financing facilities and settlement of term loans.

## Review of Cash Flow Statement

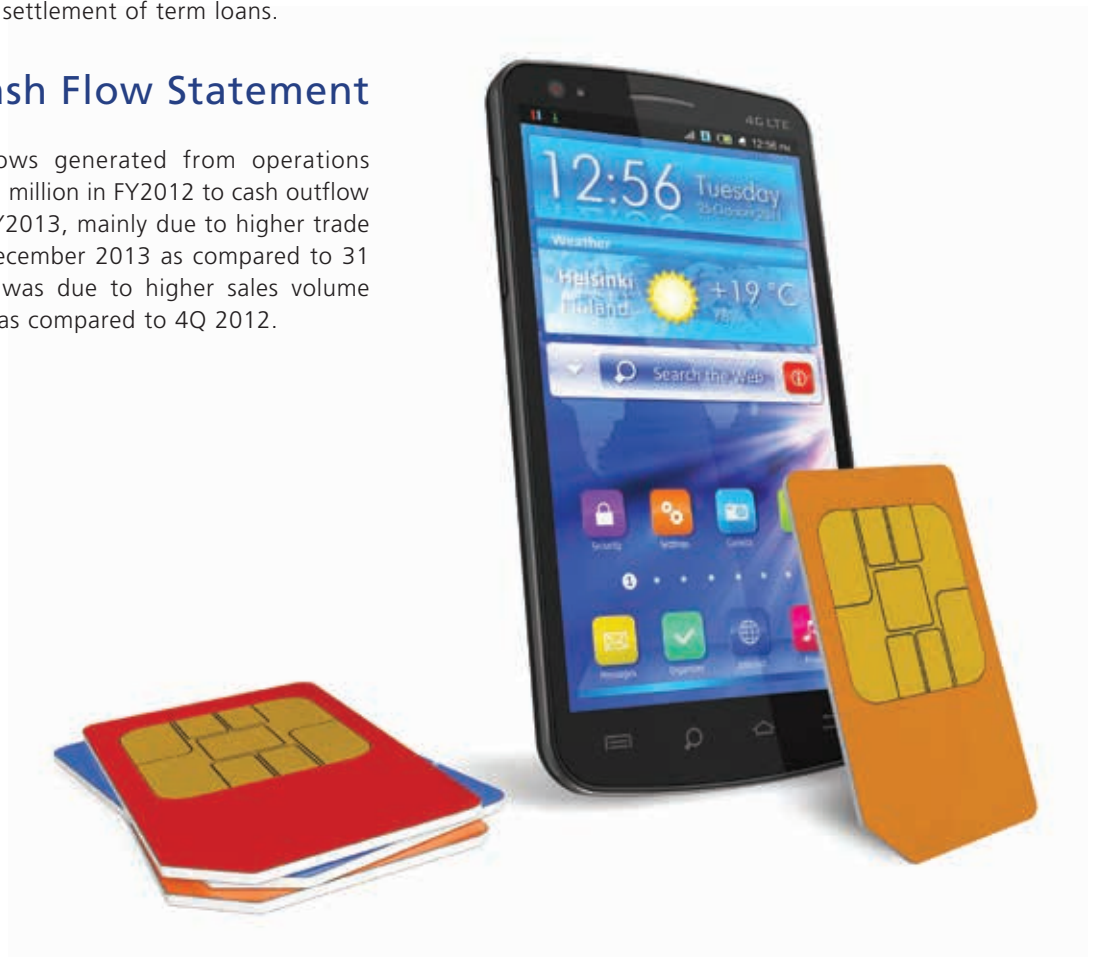
### Operating Activities

The Group's Cash flows generated from operations decreased from USD3.7 million in FY2012 to cash outflow of USD0.2 million in FY2013, mainly due to higher trade receivables as at 31 December 2013 as compared to 31 December 2012. This was due to higher sales volume registered in 4Q 2013 as compared to 4Q 2012.

### Financing Activities

In June 2013, the Group placed out 14 million ordinary shares, raising total proceeds of USD1.1 million. The full amount had been used for the Group's working capital requirements.

For the reasons mentioned above, the Group's cash and cash equivalents decreased by approximately USD0.36 million or 8.4% to USD3.9 million as compared to 31 December 2012.



# Key Management Profile

## Ang Wui Khoon Financial Controller

Ang Wui Khoon, age 43, Financial Controller, is responsible for all the financial matters for the Group. He has approximately 18 years of experience in finance and accounting. Prior to joining the Group, he has held various managerial positions, including Vice President (Finance) of Nestronics Limited (formerly known as Nera Electronics Limited), Group Financial Controller of ASJ Holdings Limited and Financial Controller of Avaplas Limited and Pteris Global Limited. Mr Ang holds a Bachelor of Accountancy Degree from Nanyang Technological University of Singapore and is a Chartered Accountant of Singapore with ISCA.

## Pang Sze Yong Product Director

Pang Sze Yong, age 42, Product Director, is 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 Chee Hui Human Resource Manager

Vincent Sim Chee Hui, age 46, 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. Mr Sim holds a Bachelor of Business Administration from La Trobe University in Australia and a Diploma in Human Resource Management from the Singapore Human Resource Institute.

## Mok Wai Ping Sales Director

Mok Wai Ping, age 35, Sales Director, is 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 smart card industry. Ms Mok holds a Diploma in Marketing Communications from Temasek Polytechnic and a Honours Degree in Management from the University of Manchester.

## Andy Gong Shengjun Senior Operations Manager

Andy Gong Shengjun, age 34, Senior Operations Manager, is responsible for all the manufacturing and logistics operations for the Company. He has approximately more than 10 years of dedicated experiences in manufacturing operations. Prior to joining the Company, he has held various managerial positions at multi-cultural and multi-national companies, including Plant Manager of Technic Asia Pacific Engineering Ltd (Thailand), Operations Manager of Technic Asia Pacific Pte Ltd (Singapore). Mr. Gong holds a Master of Business Administration Degree from Shanghai Jiaotong University.



# Corporate Information

## Board of Directors

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

## Audit Committee

Chan Kum Kit	Chairman (Independent)
Tan Geok Moey	Member (Non-Executive)
Teo Yi-Dar	Member (Independent)

## Nominating Committee

Teo Yi-Dar	Chairman (Independent)
Chan Kum Kit	Member (Independent)
Tan Geok Moey	Member (Non-Executive)

## Remuneration Committee

Teo Yi-Dar	Chairman (Independent)
Chan Kum Kit	Member (Independent)
Tan Geok Moey	Member (Non-Executive)

## Company Secretary

Chew Kok Liang (resigned on 17 January 2014)  
Nathaniel Chelvarajah Vanniasingham

## Registered Office

27 Ubi Road 4 #04-01  
Singapore 408618  
Telephone: (65) 6787 7133  
Fax: (65) 6747 1741  
Website: [www.smartflex.com.sg](http://www.smartflex.com.sg)  
Email: [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

RHT Capital Pte Ltd  
Six Battery Road  
#10-01  
Singapore 049909  
Telephone: (65) 6381 6757  
Fax: (65) 6381 6758

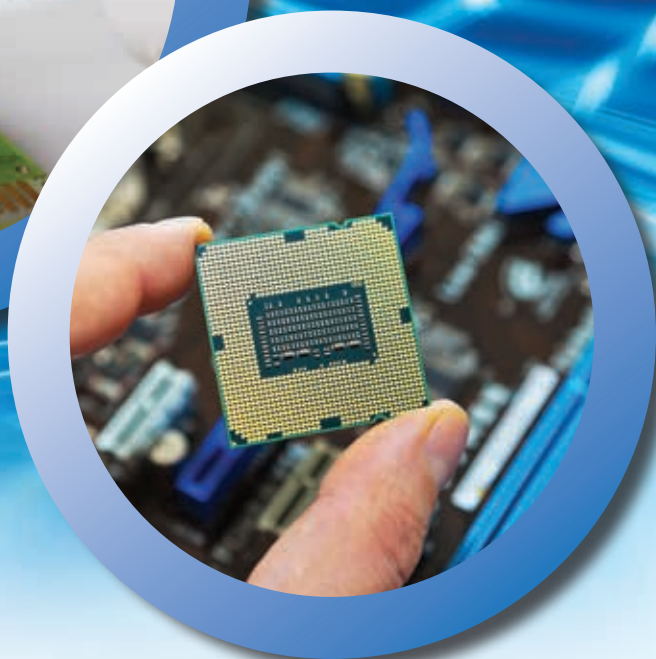
## Auditors

Ernst & Young LLP  
One Raffles Quay  
North Tower, Level 18  
Singapore 048583

Partner-in-charge: Yee Woon Yim  
(Appointed from the financial year ended  
31 December 2012)  
Telephone: (65) 6535 7777  
Fax: (65) 6532 7662

## Principal Bankers

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



## Financial Contents

13	Report on Corporate Governance
26	Directors' Report
28	Statement by Directors
29	Independent Auditor's Report
31	Balance Sheets
32	Consolidated Statement of Comprehensive Income
33	Statements of Changes in Equity
34	Consolidated Cash Flow Statement
35	Notes to the Financial Statements
72	Shareholdings Statistics
74	Notice of Annual General Meeting Proxy Form

# 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 2012 (the "**Code**"), with an appropriate explanation for any deviation from the guidelines of the Code.

## 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 ("**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 strategic objectives 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, including safeguarding of shareholders' interests and the Company's assets;
- setting the Company's values and standards (including ethical standards), and ensuring that obligations to shareholders and other stakeholders are understood and met;
- reviewing management performance, the Group's financial performance, risk management processes and systems, human resource requirements and corporate governance practices; and
- identifying the key stakeholder groups and recognising that their perceptions affect the Company's reputation.

All Directors must objectively discharge their duties and responsibilities at all times as fiduciaries in the interests of the Company.

To assist the Board in the discharge of its functions, the Audit Committee, the Nominating Committee and the Remuneration Committee (collectively, "Board Committees") 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 video-conference 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 for the financial year ended 31 December 2013 is 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	4	4	–	2*	–	2*	–	2*
Eric Ng Eng Seng	4	4	–	2*	–	2*	–	2*
Tan Geok Moey	4	4	2	2	2	2	2	2
Chan Kum Kit	4	4	2	2	2	2	2	2
Teo Yi-Dar	4	4	2	2	2	2	2	2

\* Attended by invitation

# Report on Corporate Governance

## Principle 2: Board Composition and Guidance

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	Chief Executive Officer and Executive Director
Tan Geok Moey	Non-Executive Director
Chan Kum Kit	Non-Executive and Independent Director
Teo Yi-Dar	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 proposals on strategy and goals for the Group and regularly assess the performance of the Management in meeting the agreed goals and objectives, and monitor the reporting of performance. The Non-Executive and Independent Directors are encouraged to meet, without the presence of Management, so as to facilitate a more effective check on Management.

A brief profile of each Director is set out on pages 6 and 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. None of the Directors has served on the Board beyond nine years from the date of his/her appointment.

## Principle 3: Chairman and Chief Executive Officer

The roles of Chairman and Chief Executive Officer are separated 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. When setting the agenda, he ensures that adequate time is available for discussion of all agenda items, in particular strategic issues. 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 review board succession plans for directors, in particular, the Executive Chairman and the Chief Executive Officer, 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, its Board Committees 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 Yi-Dar	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 candidate 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.

The Nominating Committee is of the opinion that sufficient time and attention are given by the Directors to the affairs of the Group, notwithstanding that some of the Directors have multiple board representations, and that there is no need to implement internal guidelines to address competing time commitments.

# 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 had carried out annual performance evaluation process to assess the effectiveness of the Board as a whole and its Board Committees. The purpose of the process is to increase the overall effectiveness of the Board and its Board Committees. Each Director completes an evaluation form to assess the overall effectiveness of the Board as a whole and its Board Committees. The appraisal process for the Board focused on the evaluation of factors such as the composition of the Board, the Board's accessibility to information, Board procedures and accountability, communication with key management personnel and Directors' standards of conduct. The appraisal process for the Board Committees, on the other hand, focused on the evaluation of the respective Board Committee structure, conduct of meetings, measurement and monitoring of Board Committee performance.

Apart from the above, the Nominating Committee had also conducted a peer evaluation for each individual Board member. This process aims at reviewing the contribution, performance and commitment of each Director towards the affairs of the Group.

The results of these evaluations are reviewed and used constructively by the Nominating Committee to identify areas of improvements and recommending appropriate course of action to the Board.

## 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 key management personnel 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 key management personnel 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 Yi-Dar	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 general framework of remuneration for the Directors and key management personnel, 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, share-based incentives and awards, 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.

The Remuneration Committee has not sought external advice nor appointed remuneration consultants in considering the remuneration of all Directors.

The Remuneration Committee will review the Company's obligations under the service agreements entered into with the Executive Directors and key management personnel that would arise in the event of termination of these service agreements. This is to ensure that such service agreements contain fair and reasonable termination clauses which are not overly generous. The Remuneration Committee aims to be fair and avoid rewarding poor performance.

## 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 key management personnel's remuneration

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.

# Report on Corporate Governance

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 three (3) years. While the Executive Directors have entered into services agreements with the Company, after the initial term of three (3) years, their employment with the Company may be terminated at any time by either party giving to the other party three (3) months' notice in writing or in lieu of the said three months' notice, an amount equivalent to three (3) months' salary based on the Executive Director's last drawn salary.

The Remuneration Committee may recommend the Company to consider the use of contractual provisions to allow the Company to reclaim incentive components of remuneration from Executive Directors and key management personnel in exceptional circumstances of misstatement of financial results or misconduct resulting in financial loss to the Company.

## 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 at any of the Company's subsidiary) of the Company's Directors and key management personnel (who are not also directors) for the financial year ended 31 December 2013 are as follows:

Remuneration band and Name of Director	Base/Fixed salary (%)	Bonus (%)	Directors' fees (%)	Benefits-in-kind (%)	Total (%)
<b>S\$250,000 to below S\$500,000</b>					
Eric Ng Eng Seng	98	2	–	–	100
<b>Below S\$250,000</b>					
Tan Tong Guan	97	3	–	–	100
Tan Geok Moey	–	–	100	–	100
Teo Yi-Dar <sup>(1)</sup>	–	–	100	–	100
Chan Kum Kit	–	–	100	–	100
Teo Zee Vee <sup>(2)</sup>	–	–	100	–	100

(1) Appointed as Director with effect from 22 February 2013

(2) Retired as Director with effect from 26 April 2013

# Report on Corporate Governance

Remuneration band and Name of Key Management Personnel	Base/Fixed salary (%)	Bonus (%)	Benefits-in-kind (%)	Total (%)
<b>Below S\$250,000</b>				
Mok Wai Ping	91	9	–	100
Yeo Choon Tat <sup>(1)</sup>	100	–	–	100
Pang Sze Yong	91	9	–	100
Vincent Sim Chee Hui	91	9	–	100
Thiam Kok Lee <sup>(2)</sup>	100	–	–	100
Andy Gong Shengjun <sup>(3)</sup>	100	–	–	100
Ang Wui Khoon <sup>(4)</sup>	100	–	–	100

(1) Ceased as Financial Controller with effect from 31 December 2013

(2) Ceased as QA Manager with effect from 26 April 2013

(3) Appointed as Senior Operations Manager with effect from 2 September 2013

(4) Appointed as Financial Controller with effect from 16 December 2013

The aggregate total remuneration paid to the top five key management personnel (who are not Directors or the Chief Executive Officer) for the financial year ended 31 December 2013 is approximately S\$642,669.

Due to the very competitive nature of the industry the Group operates in, the Board believes it is unwise to disclose the breakdown of the remuneration of the Directors and key management personnel.

There is no employee of the Group who is an immediate family member of any Director and whose remuneration exceeded S\$50,000 during the financial year ended 31 December 2013. "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.

None of the Directors (including the Chief Executive Officer) and the top five key management personnel (who are not directors or the Chief Executive Officer) of the Company has received any termination, retirement, post-employment benefits for the financial year ended 31 December 2013.

## 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.

# Report on Corporate Governance

## Principle 11: Risk Management and 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, compliance and information technology controls and risk management to ensure that they are adequate to meet the needs of the Company in its current business environment.

For FY2013, the Board has received assurance from the Chief Executive Officer and Financial Controller that the financial records have been properly maintained and the financial statements give a true and fair view of the Group's operations and finances; and the Group's risk management and internal control systems are sufficiently effective.

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

The Board and the Audit Committee note that all internal control systems contain inherent limitation and no systems of internal controls could provide absolute assurance against the occurrence of material errors, poor judgment in decision making, human errors, losses, fraud or other irregularities.

Based on the internal controls established and maintained by the Group, work performed by the internal and independent auditors, reviews performed by Management and assurance received from the Chief Executive Officer and Financial Controller, the Board with the concurrence of the Audit Committee is of the opinion that the Group's internal controls are adequate in addressing the financial, operational, compliance and information technology risks of the Group.

## Principle 12: Audit Committee

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

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

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 executive officer 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.

# Report on Corporate Governance

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;
- 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 including financial, operational, compliance and information technology controls, as well as 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 the independent auditors and with internal auditors, at least annually, without the presence of Management. The Audit Committee will review the independence and objectivity of independent 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 the policy and 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 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, Crowe Horwath First Trust Risk Advisory Pte Ltd, 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 and effectiveness of the internal audit function.

## Principles 14 and 15: Shareholder Rights and 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.

# Report on Corporate Governance

## Principle 16: Conduct of Shareholder Meetings

The shareholders are encouraged to attend the Company's general meetings of shareholders to participate effectively in and vote at general meetings of shareholders to ensure a high level of accountability and to stay informed of the Group's strategies and growth plans and establish and maintain regular dialogue between the Company and shareholders, to gather views or inputs, and address shareholders' concerns. The chairpersons and/or members of the Board, AC, RC and NC and the external auditors are normally available at the shareholders' meetings to address any shareholders' queries, including those relating to the conduct of audit and the preparation and content of the auditors' report.

If any shareholder is unable to attend, he/she is allowed to appoint up to two proxies to vote on his/her behalf at the meeting through proxy forms sent in advance. The Company's Memorandum and Articles of Association currently do not allow a member to appoint more than two proxies to attend and vote at the same general meetings. However, shareholders who hold shares through nominees such as The Central Depository (Pte) Ltd and custodian banks are allowed to attend general meetings as observers.

Each item of special business included in the notice of the general meetings will be accompanied by full explanation of the effects of a proposed resolution. Separate resolutions are proposed for each substantially separate issue at general meetings.

The Company prepares minutes of general meetings that include substantial and relevant comments or queries from shareholders relating to the agenda of the meeting, and responses from the Board and Management. These minutes are available to shareholders upon their request.

The Company understand that the Company should put all resolutions to vote by poll. In the event a poll is conducted, the Company will make an announcement of the detailed results showing the numbers of votes cast for and against each resolution and the respective percentages.

The Company does not have a policy on payment of dividends. The issue of payment of dividend is deliberated by the Board annually having regard to various factors.

## 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 Catalyst. 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, key management personnel 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 key management personnel 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.

# Report on Corporate Governance

## Interested Person Transactions

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

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

## Material Contracts

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

## 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 2013:

	<b>Group</b>	
	<b>2013</b>	2012
	<b>US\$'000</b>	US\$'000
Audit fees	<b>48</b>	44
Non-audit fees:		
Tax returns compliance service	<b>9</b>	8
Tax advisory	–	5
<b>Total audit and non-audit fees</b>	<b>57</b>	57

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 2013.

# Directors' Report

The directors 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 2013.

## Directors

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

Tan Tong Guan  
Eric Ng Eng Seng  
Chan Kum Kit  
Tan Geok Moey  
Teo Yi-Dar

## 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, Chapter 50, an interest in shares of the Company and related corporations as stated below:

Name of director	Number of ordinary shares			
	Direct interest		Deemed interest	
	At the beginning of financial year	At the end of financial year	At the beginning of financial year	At the end of financial year
<b>The Company</b>				
Tan Tong Guan	565,001	565,001	51,170,000	51,170,000
Eric Ng Eng Seng	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 2014.

# Directors' Report

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

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

## Directors' contractual benefits

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

## Audit committee

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

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

## Auditor

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

On behalf of the board of directors:

**Tan Tong Guan**

*Director*

**Eric Ng Eng Seng**

*Director*

Singapore  
21 March 2014

# Statement by Directors

We, Tan Tong Guan and Eric Ng Eng Seng, 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 2013 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*

**Eric Ng Eng Seng**

*Director*

Singapore

21 March 2014



# 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 31 to 71, which comprise the balance sheets of the Group and the Company as at 31 December 2013, 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 2013 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 Chartered Accountants*

Singapore  
21 March 2014



# Balance Sheets

As at 31 December 2013

	Note	Group		Company	
		2013 US\$	2012 US\$	2013 US\$	2012 US\$
<b>Non-current assets</b>					
Property, plant and equipment	3	<b>6,574,765</b>	7,931,248	–	–
Investment in subsidiary	4	–	–	<b>7,197,408</b>	7,197,408
Investment in joint venture	4	<b>718,109</b>	947,893	<b>1,094,512</b>	1,094,512
		<b>7,292,874</b>	8,879,141	<b>8,291,920</b>	8,291,920
<b>Current assets</b>					
Inventories	5	<b>3,649,358</b>	4,030,639	–	–
Trade and other receivables	6	<b>3,480,575</b>	2,239,414	–	–
Amount due from subsidiary		–	–	<b>1,534,257</b>	634,013
Amounts due from joint venture	14	<b>924,306</b>	599,771	–	–
Amounts due from related party	15	<b>662,836</b>	–	–	–
Prepayments		<b>95,971</b>	53,371	<b>3,292</b>	3,820
Cash and cash equivalents	7	<b>3,918,730</b>	4,276,870	<b>13,788</b>	8,147
		<b>12,731,776</b>	11,200,065	<b>1,551,337</b>	645,980
<b>Total assets</b>		<b>20,024,650</b>	20,079,206	<b>9,843,257</b>	8,937,900
<b>Current liabilities</b>					
Trade payables	8	<b>3,401,815</b>	3,425,798	–	–
Other payables and accruals	9	<b>928,725</b>	595,280	<b>94,756</b>	77,953
Loans and borrowings	10	<b>2,412,056</b>	3,340,658	–	–
Amount due to joint venture	14	–	6,062	–	6,062
		<b>6,742,596</b>	7,367,798	<b>94,756</b>	84,015
<b>Net current assets</b>		<b>5,989,180</b>	3,832,267	<b>1,456,581</b>	561,965
<b>Non-current liabilities</b>					
Deferred tax liability	11	<b>(759,145)</b>	(1,082,597)	–	–
Provision for reinstatement	16	<b>(251,825)</b>	(227,025)	–	–
<b>Net assets</b>		<b>12,271,084</b>	11,401,786	<b>9,748,501</b>	8,853,885
<b>Share capital</b>	12	<b>10,236,190</b>	9,125,528	<b>10,236,190</b>	9,125,528
<b>Revenue reserves</b>		<b>7,023,291</b>	7,264,655	<b>(487,689)</b>	(271,643)
<b>Merger reserve</b>	13	<b>(4,988,397)</b>	(4,988,397)	–	–
<b>Total equity</b>		<b>12,271,084</b>	11,401,786	<b>9,748,501</b>	8,853,885
<b>Total equity and liabilities</b>		<b>20,024,650</b>	20,079,206	<b>9,843,257</b>	8,937,900

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 2013

	Note	2013 US\$	2012 US\$
<b>Revenue</b>		<b>23,080,092</b>	25,069,376
Cost of sales		<b>(18,836,052)</b>	(20,476,222)
<b>Gross profit</b>		<b>4,244,040</b>	4,593,154
Other income	17	<b>152,078</b>	73,736
Selling and distribution expenses		<b>(127,133)</b>	(61,660)
General and administrative expenses		<b>(4,383,465)</b>	(3,976,289)
Finance expense	18	<b>(47,957)</b>	(65,245)
Share of results of joint venture		<b>(229,784)</b>	(146,619)
<b>(Loss)/profit before taxation</b>	19	<b>(392,221)</b>	417,077
Taxation	20	<b>351,290</b>	176,765
<b>(Loss)/profit net of tax</b>		<b>(40,931)</b>	593,842
<b>Other comprehensive income for the year, net of tax</b>		-	-
<b>Total comprehensive income attributable to owners of the Company</b>		<b>(40,931)</b>	593,842
<b>Earnings per share (in US\$ cents)</b>			
Basic and diluted	21	<b>(0.05)</b>	0.72

*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 2013

Group	Share capital (Note 12)	Revenue reserves	Merger reserve (Note 13)	Total equity
	US\$	US\$	US\$	US\$
Balance at 1 January 2013	9,125,528	7,264,655	(4,988,397)	11,401,786
New shares issued	1,110,662	–	–	1,110,662
Profit for the year	–	(40,931)	–	(40,931)
Total comprehensive income for the year	–	(40,931)	–	(40,931)
Dividends on ordinary shares (Note 26)	–	(200,433)	–	(200,433)
Total contributions by and distributions to owners	–	(200,433)	–	(200,433)
Balance at 31 December 2013	10,236,190	7,023,291	(4,988,397)	12,271,084
Balance at 1 January 2012	9,125,528	7,103,167	(4,988,397)	11,240,298
Profit for the year	–	593,842	–	593,842
Total comprehensive income for the year	–	593,842	–	593,842
Dividends on ordinary shares (Note 26)	–	(432,354)	–	(432,354)
Total contributions by and distributions to owners	–	(432,354)	–	(432,354)
Balance at 31 December 2012	9,125,528	7,264,655	(4,988,397)	11,401,786

Company	Share capital (Note 12)	Revenue reserves	Total equity
	US\$	US\$	US\$
Balance at 1 January 2013	9,125,528	(271,643)	8,853,885
New shares issued	1,110,662	–	1,110,662
Profit for the year	–	(15,613)	(15,613)
Total comprehensive income for the year	–	(15,613)	(15,613)
Dividends on ordinary shares (Note 26)	–	(200,433)	(200,433)
Total contributions by and distributions to owners	–	(200,433)	(200,433)
Balance as at 31 December 2013	10,236,190	(487,689)	9,748,501
Balance at 1 January 2012	9,125,528	(83,529)	9,041,999
Profit for the year	–	244,240	244,240
Total comprehensive income for the year	–	244,240	244,240
Dividends on ordinary shares (Note 26)	–	(432,354)	(432,354)
Total contributions by and distributions to owners	–	(432,354)	(432,354)
Balance at 31 December 2012	9,125,528	(271,643)	8,853,885

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 2013

	2013 US\$	2012 US\$
<b>Cash flows from operating activities</b>		
(Loss)/profit before taxation	(392,221)	417,077
Adjustments for:		
Depreciation of property, plant and equipment	1,723,207	1,732,929
Property, plant and equipment written off	4,513	322
Bad debts written (back)/off	(48,591)	57,591
Interest income	(68,492)	(1,904)
Interest expense	47,957	65,245
Share of results of joint venture	229,784	146,619
<b>Operating cash flows before working capital changes</b>	<b>1,496,157</b>	<b>2,417,879</b>
(Increase)/decrease in trade and other receivables and prepayments	(2,052,295)	1,051,199
Decrease/(increase) in inventories	381,281	(947,039)
Increase in trade and other payables	327,739	1,148,145
<b>Cash generated from operations</b>	<b>152,882</b>	<b>3,670,184</b>
Interest received	794	1,904
Interest paid	(41,434)	(65,245)
Income tax refunded/(paid)	27,838	(327,729)
<b>Net cash flows generated from operating activities</b>	<b>140,080</b>	<b>3,279,114</b>
<b>Cash flows from investing activities</b>		
Purchase of property, plant and equipment	(371,237)	(1,003,772)
Investment in joint venture	–	(1,094,512)
Net loan to joint venture	(108,610)	(593,709)
<b>Net cash flows used in investing activities</b>	<b>(479,847)</b>	<b>(2,691,993)</b>
<b>Cash flows from financing activities</b>		
Proceeds from issuance of shares	1,110,662	–
Proceeds from term loan	–	760,500
Repayment of loans and borrowings	(304,043)	(1,018,098)
(Repayment)/proceeds from trade finance facilities	(624,559)	1,098,474
Dividends paid	(200,433)	(432,354)
<b>Net cash flows (used in)/generated from financing activities</b>	<b>(18,373)</b>	<b>408,522</b>
Net (decrease)/increase in cash and cash equivalents	(358,140)	995,643
Cash and cash equivalents at beginning of the year (Note 7)	4,276,870	3,281,227
<b>Cash and cash equivalents at end of the year (Note 7)</b>	<b>3,918,730</b>	<b>4,276,870</b>

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

# Notes to the Financial Statements

31 December 2013

## 1. Corporate information

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, #04-01, 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.

## 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\$").

### 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 which are effective for annual periods beginning on or after 1 January 2013. The adoption of these standards 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 that have been issued but not yet effective:

<b>Description</b>	<b>Effective for annual periods beginning on or after</b>
Revised FRS 27 <i>Separate Financial Statements</i>	1 January 2014
Revised FRS 28 <i>Investments in Associates and Joint Ventures</i>	1 January 2014
FRS 110 <i>Consolidated Financial Statements</i>	1 January 2014
FRS 111 <i>Joint Arrangements</i>	1 January 2014
FRS 112 <i>Disclosure of Interests in Other Entities</i>	1 January 2014
Amendments to FRS 32 <i>Offsetting Financial Assets and Financial Liabilities</i>	1 January 2014

# Notes to the Financial Statements

31 December 2013

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

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

Except for the Amendments to FRS 111, Revised FRS 28 and FRS 112, the directors expect that the adoption of the other standards 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 111, Revised FRS 28 and FRS 112 are described below.

#### FRS 111 Joint Arrangements and Revised FRS 28 Investments in Associates and Joint Ventures

FRS 111 Joint Arrangements and Revised FRS 28 Investments in Associates and Joint Ventures are effective for financial periods beginning on or after 1 January 2014.

FRS 111 classifies joint arrangements either as joint operations or joint ventures. Joint operation is a joint arrangement whereby the parties that have rights to the assets and obligations for the liabilities whereas joint venture is a joint arrangement whereby the parties that have joint control of the arrangement have rights to the net assets of the arrangement.

FRS 111 requires the determination of joint arrangement's classification to be based on the parties' rights and obligations under the arrangement, with the existence of a separate legal vehicle no longer being the key factor. FRS 111 disallows proportionate consolidation and requires joint ventures to be accounted for using the equity method. The revised FRS 28 was amended to describe the application of equity method to investments in joint ventures in addition to associates.

The Group currently applies equity method for its joint ventures and does not expect the adoption of FRS 111 to affect the Group's financial statement presentation.

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

FRS 112 Disclosure of Interests in Other Entities is effective for financial periods beginning on or after 1 January 2014.

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. As this is a disclosure standard, it will have no impact to the financial position and financial performance of the Group when implemented in 2014.

# Notes to the Financial Statements

31 December 2013

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

### 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. Uncertainty about these assumptions and estimates could result in outcomes that 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 are discussed below. The Group based its assumptions and estimates on parameters available when the financial statements were prepared. Existing circumstances and assumptions about future developments, however, may change due to market changes or circumstances arising beyond the control of the Group. Such changes are reflected in the assumptions when they occur.

#### *(i) Useful lives of property, plant and equipment*

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

#### *(ii) Impairment of loans and receivables*

The Group assesses at each reporting date 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 amount of the Group's loans and receivables at the end of the reporting period are disclosed in Note 6 to the financial statements.

# Notes to the Financial Statements

31 December 2013

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

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

#### (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 liabilities at 31 December 2013 was Nil (2012: Nil), and US\$759,145 (2012: US\$1,082,597) respectively.

### 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 and dividend are eliminated in full.

Subsidiaries are consolidated from the date of acquisition, being the date on which the Group obtains control, and continue to be consolidated until the date that such control ceases.

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

# Notes to the Financial Statements

31 December 2013

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

### 2.6 Foreign currency

The 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 measured.

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.

For consolidation purpose, the assets and liabilities of foreign operations are translated into USD at the rate of exchange ruling at the end of the reporting period and their profit or loss are translated at the exchange rates prevailing at the date of the transactions. The exchange differences arising on the translation are recognised in other comprehensive income. On disposal of a foreign operation, the component of other comprehensive income relating to that particular foreign operation is recognised in profit or loss.

# Notes to the Financial Statements

31 December 2013

## 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, property, plant and equipment other than freehold land and buildings 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 2.20. 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 2013

## 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 of disposal 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 of disposal, recent market transactions are taken into account, if available. If no such transactions can be identified, an appropriate valuation model is used.

Impairment losses of continuing operations are recognised in profit or loss, except for assets that are previously revalued where the revaluation was taken to other comprehensive income. In this case the impairment is also recognised in other comprehensive income up to the amount of any previous revaluation.

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

### 2.9 Subsidiary

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, investment in subsidiary is accounted for at cost less impairment losses.

# Notes to the Financial Statements

31 December 2013

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

### 2.10 Joint venture

A joint venture is a contractual arrangement whereby two or more parties undertake an economic activity that is subject to joint control, where the strategic financial and operating decisions relating to the activity require the unanimous consent of the parties sharing control. The Group recognises its interest in the joint venture using the equity method.

Under the equity method, the investment in an joint venture is initially recognised at cost and the carrying amount is increased or decreased to recognise the investor's share of the profit or loss of the investee after the date of acquisition. The investor's share of the profit or loss of the investee is recognised in the investor's profit or loss. Distributions received from an investee reduce the carrying amount of the investment. Adjustments to the carrying amount may also be necessary for changes in the investor's proportionate interest in the investee arising from changes in the investee's other comprehensive income. Such changes include those arising from the revaluation of property, plant and equipment and from foreign exchange translation differences. The investor's share of those changes is recognised in other comprehensive income of the investor. The financial statements of the joint venture are prepared as of the same reporting date as the Company.

### 2.11 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 in other comprehensive income is recognised in profit or loss.

#### *Regular way purchase or sale of a financial asset*

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 2013

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

### 2.12 Impairment of financial assets

The Group assesses at each reporting date 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 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 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 asset 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 had 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 2013

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

### 2.13 Cash and cash equivalents

Cash and cash equivalents comprise cash at bank and on hand 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.

### 2.14 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 2.11.

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 2.12.

### 2.15 Inventories

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

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

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

### 2.16 Financial liabilities

#### *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.

# Notes to the Financial Statements

31 December 2013

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

### 2.16 Financial liabilities (cont'd)

#### *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 include financial liabilities held for trading. 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 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.

### 2.17 Trade and other payables

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

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

# Notes to the Financial Statements

31 December 2013

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

### 2.18 Provisions

Provisions are recognised when the Group has a present obligation (legal or constructive) where, as a result of a past event, it is probable that an outflow of 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 resources embodying economic benefits will be required to settle the obligation, the provision is reversed. If the effect of the time value of money is material, provisions are discounted using a current pre-tax rate that reflects, where appropriate, the risks specific to the liability. When discounting is used, the increase in the provision due to the passage of time is recognised as a finance cost.

### 2.19 Interest bearing loans and borrowings

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

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

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

### 2.20 Borrowing costs

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

# Notes to the Financial Statements

31 December 2013

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

### 2.21 Leases

The determination of whether an arrangement is, or contains a lease is based on the substance of the arrangement at inception date: whether fulfillment of the arrangement is dependent on the use of a specific asset or assets or the arrangement conveys a right to use the asset, even if that right is not explicitly specified in an arrangement.

#### 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.

### 2.22 Employees benefits

#### *(a) Defined contribution plan*

The Group makes contributions to the Central Provident Fund ("CPF") scheme in Singapore, a defined contribution pension scheme. Contributions to defined contribution pension schemes are recognised as 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 employees. The estimated liability for leave is recognised for services rendered by employees up to the end of the reporting period.

# Notes to the Financial Statements

31 December 2013

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

### 2.23 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 following specific recognition criteria must also be met before revenue is recognised:

#### *Sale of goods*

Revenue from sale of goods is recognised upon the transfer of significant risks and rewards of ownership of the goods to the customer, 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.

### 2.24 Taxes

#### (a) *Current income tax*

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

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

#### (b) *Deferred tax*

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

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

- Where the deferred tax liability arises from the initial recognition of goodwill or of an asset or liability in a transaction that is not a business combination and, at the time of the transaction, affects neither the accounting profit nor taxable profit or loss; and
- In respect of taxable temporary differences associated with investment in subsidiary and interest in joint venture, 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 2013

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

### 2.24 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 differences 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 profit will be available against which the temporary differences can be utilised.

The carrying amount of deferred tax assets 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 in 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 relate to the same taxable entity and the same taxation authority.

# Notes to the Financial Statements

31 December 2013

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

### 2.24 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.

### 2.25 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.

### 2.26 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.

### 2.27 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 2013

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

### 2.28 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 2013

## 3. Property, plant and equipment

Group	Computers US\$	Office equipment US\$	Furniture and fittings US\$	Renovation US\$	Plant and machinery US\$	Factory equipment US\$	Total US\$
<b>Cost</b>							
At 1 January 2012	124,552	139,402	320,407	769,820	12,897,696	105,705	14,357,582
Additions	58,930	9,299	20,579	-	898,152	16,812	1,003,772
Written off	(104)	(129)	(250)	-	(1,377)	-	(1,860)
At 31 December 2012 and 1 January 2013	183,378	148,572	340,736	769,820	13,794,471	122,517	15,359,494
Additions	12,074	12,918	5,094	24,800	231,907	84,444	371,237
Written off	-	-	(9,557)	-	-	-	(9,557)
At 31 December 2013	195,452	161,490	336,273	794,620	14,026,378	206,961	15,721,174
<b>Accumulated depreciation</b>							
At 1 January 2012	112,769	83,999	88,123	82,406	5,265,552	64,006	5,696,855
Charge for the year	11,406	23,077	99,976	162,619	1,414,204	21,647	1,732,929
Written off	(104)	(129)	(250)	-	(1,055)	-	(1,538)
At 31 December 2012 and 1 January 2013	124,071	106,947	187,849	245,025	6,678,701	85,653	7,428,246
Charge for the year	24,567	25,186	96,895	157,668	1,389,839	29,052	1,723,207
Written off	-	-	(5,044)	-	-	-	(5,044)
At 31 December 2013	148,638	132,133	279,700	402,693	8,068,540	114,705	9,146,409
<b>Net book value</b>							
At 31 December 2013	46,814	29,357	56,573	391,927	5,957,838	92,256	6,574,765
At 31 December 2012	59,307	41,625	152,887	524,795	7,115,770	36,864	7,931,248

### Assets pledged as security

The Group's plant and machinery with carrying amounts of approximately US\$697,000 (2012: US\$1,626,500) are subject to a fixed charge as security for bank facilities (Note 10).

# Notes to the Financial Statements

31 December 2013

## 4. Investments in subsidiary and joint venture

### (a) Investment in subsidiary

	Company	
	2013	2012
	US\$	US\$
Equity shares, at cost	<b>7,197,408</b>	7,197,408

Name	Country of incorporation	Principal activities	Proportion (%) of ownership interest	
			2013	2012
			Smartflex Technology Pte Ltd*	Singapore

\* Audited by Ernst & Young LLP, Singapore

### (b) Investment in joint venture

Name	Country of incorporation	Principal activities	Proportion (%) of ownership interest	
			2013	2012
			Smartflex Innovation Pte Ltd*	Singapore

\* Audited by Ernst & Young LLP, Singapore

	Group	
	2013	2012
	US\$	US\$
Equity shares, at cost	<b>1,094,512</b>	1,094,512
Share of equity of joint venture	<b>(376,403)</b>	(146,619)
	<b>718,109</b>	947,893

Movement in share of equity in joint venture:

At 1 January	<b>(146,619)</b>	–
Share of results of joint venture	<b>(229,784)</b>	(146,619)
At 31 December	<b>(376,403)</b>	(146,619)

# Notes to the Financial Statements

31 December 2013

## 4. Investments in subsidiary and joint venture (cont'd)

### (b) Investment in joint venture (cont'd)

The summarized financial information of the jointly-controlled entity, not adjusted for the proportion of interest held by the Group, is as follows:

	2013 US\$	2012 US\$
<b>Assets and liabilities:</b>		
Current assets	564,038	407,576
Non-current assets	5,283,552	4,588,666
Total assets	5,847,590	4,996,242
Current liabilities	2,059,392	1,632,595
Non-current liabilities	2,752,813	2,000,000
<b>Income and expenses:</b>		
Income	30,802	39,247
Expenses	(359,064)	(248,703)

## 5. Inventories

	Group	
	2013 US\$	2012 US\$
<b>Balance sheet:</b>		
At cost:		
Raw materials	3,218,981	3,570,319
Consumables	165,892	241,294
Finished goods	42,704	219,026
Work-in-progress	221,781	–
	3,649,358	4,030,639
<b>Statement of comprehensive income:</b>		
Inventories recognised as an expense in cost of sales	(14,943,962)	(16,477,509)

# Notes to the Financial Statements

31 December 2013

## 6. Trade and other receivables

	<b>2013</b>	<b>Group</b>
	<b>2013</b>	2012
	<b>US\$</b>	US\$
Trade receivables	<b>3,402,063</b>	2,208,347
Deposits	<b>78,512</b>	31,067
Total trade and other receivables	<b>3,480,575</b>	2,239,414
Add: Amount due from joint venture	<b>924,306</b>	599,771
Add: Amount due from related party	<b>662,836</b>	–
Add: Cash and cash equivalents	<b>3,918,730</b>	4,276,870
Total loans and receivables	<b>8,986,447</b>	7,116,055

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

	<b>2013</b>	<b>Group</b>
	<b>2013</b>	2012
	<b>US\$</b>	US\$
Singapore Dollar	<b>59,911</b>	68,305

### 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\$1,105,085 (2012: US\$991,411) that are past due date at the end of the reporting period but not impaired. These receivables are unsecured and the analysis of their ageing at the end of the reporting period is as follows:

	<b>2013</b>	<b>Group</b>
	<b>2013</b>	2012
	<b>US\$</b>	US\$
Trade receivables past due:		
Less than 30 days	<b>823,474</b>	661,689
30 to 60 days	<b>216,631</b>	329,372
More than 60 days	<b>64,980</b>	350
	<b>1,105,085</b>	991,411

### Receivables that are impaired

The Group does not have any receivables that are impaired as at 31 December 2013 and 2012. During the year, bad debts of US\$48,591 were recovered (2012: bad debts of US\$57,591 were written off).

# Notes to the Financial Statements

31 December 2013

## 7. Cash and cash equivalents

	Group		Company	
	2013	2012	2013	2012
	US\$	US\$	US\$	US\$
Cash at banks and in hand	<b>3,918,730</b>	4,276,870	<b>13,788</b>	8,147

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

	Group		Company	
	2013	2012	2013	2012
	US\$	US\$	US\$	US\$
Singapore Dollar	<b>668,541</b>	581,591	<b>13,788</b>	8,147
Euro	<b>176,925</b>	318,385	–	–

## 8. Trade payables

	Group	
	2013	2012
	US\$	US\$
Trade payables	<b>3,401,815</b>	3,425,798
Other payables and accruals (Note 9)	<b>928,725</b>	595,280
Loans and borrowings (Note 10)	<b>2,412,056</b>	3,340,658
Amount due to joint venture	–	6,062
Total financial liabilities carried at amortised cost	<b>6,742,596</b>	7,367,798

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

	Group	
	2013	2012
	US\$	US\$
Singapore Dollar	<b>221,536</b>	213,353
Euro	<b>878,187</b>	947,762
Great British Pound	<b>11,305</b>	–

# Notes to the Financial Statements

31 December 2013

## 9. Other payables and accruals

	Group		Company	
	2013 US\$	2012 US\$	2013 US\$	2012 US\$
Accruals	<b>804,889</b>	485,417	<b>94,756</b>	77,953
Deposits received and other payables	<b>123,836</b>	109,863	–	–
	<b>928,725</b>	595,280	<b>94,756</b>	77,953

## 10. Loans and borrowings

	Group	
	2013 US\$	2012 US\$
Bank loans (current):		
– Euro loan	–	42,451
– USD loans*	<b>464,133</b>	725,725
– USD trust receipts	<b>1,162,327</b>	1,717,264
– Euro trust receipts	<b>785,596</b>	855,218
	<b>2,412,056</b>	3,340,658

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 1.56% to 1.85% (2012: 1.21% to 2.57%) per annum.

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. Accordingly, the Company has classified the above bank loans to current liabilities.

\* As at 31 December 2013, this balance comprised of loans amounting to US\$464,133 (2012: US\$663,017) with a maturity on 31 March 2016.

# Notes to the Financial Statements

31 December 2013

## 11. Deferred tax liability

	Group	
	2013	2012
	US\$	US\$
Deferred tax liability can be analysed as follows:		
Differences in depreciation for tax purposes	804,391	1,111,880
Others	(45,246)	(29,283)
	<b>759,145</b>	<b>1,082,597</b>

There are no income tax consequences (2012: Nil) attached to the dividends to the shareholders proposed by the Company but not recognised as a liability in the financial statements (Note 26).

## 12. Share capital

	Group and Company			
	2013	2013	2012	2012
	No. of shares		No. of shares	
	'000	US\$	'000	US\$
At 1 January	82,440	9,125,528	82,440	9,125,528
New shares issued	14,000	1,110,662	–	–
At 31 December	<b>96,440</b>	<b>10,236,190</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.

The net proceeds from the issuance of new shares have been fully disbursed and used in repayment of invoice financing borrowing and payment to suppliers to meet the working capital requirement of the Group. The use of proceeds is in accordance with the stated use of the placement in the Company's announcements on 14 June 2013, 26 June 2013 and 28 June 2013.

## 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 was accounted for under the pooling of interest method of accounting.

## 14. Amounts due from/to joint venture

Amounts due from joint venture are non-trade, interest-bearing at 4.25% per annum when denominated in Euro, at 4.75% per annum when denominated in USD and 7.25% per annum when denominated in Singapore Dollar. There is no fixed term of repayment.

Amount due to joint venture is non-trade, interest-free and repayable on demand.

# Notes to the Financial Statements

31 December 2013

## 15. Amounts due from related party

These amounts are due from a shareholder of joint venture, non-trade in nature, secured by 600,000 ordinary shares held in Smartflex Innovation Pte Ltd by the related party and interest-bearing at 8% per annum. There is no fixed term of repayment.

## 16. Provision for reinstatement

	Group	
	2013	2012
	US\$	US\$
At 1 January	227,025	227,025
Provision made during the year	24,800	–
Provision for reinstatement	251,825	227,025

## 17. Other income

	Group	
	2013	2012
	US\$	US\$
Interest income from:		
– joint venture	48,036	14,859
– related party	19,946	–
– banks	510	1,904
Bad debts recovery	48,591	–
Rental income from joint venture	24,746	55,880
Others	10,249	1,093
	152,078	73,736

## 18. Finance expense

	Group	
	2013	2012
	US\$	US\$
Interest expense on:		
– trade finance facilities	(37,405)	(48,722)
– term loans	(10,397)	(16,519)
– bank overdraft	(155)	(4)
	(47,957)	(62,245)

# Notes to the Financial Statements

31 December 2013

## 19. (Loss)/profit before taxation

The following items have been included in arriving at (loss)/profit before taxation:

	<b>2013</b>	<b>Group</b>
	<b>2012</b>	
	<b>US\$</b>	<b>US\$</b>
Audit fees:		
– Auditors of the Company	<b>(48,214)</b>	(43,807)
Non-audit fees:		
– Auditors of the Company	<b>(9,202)</b>	(13,007)
<b>Total audit and non-audit fees</b>	<b>(57,416)</b>	(56,814)
Depreciation of property, plant and equipment	<b>(1,723,207)</b>	(1,732,929)
Property, plant and equipment written off	<b>(4,513)</b>	(322)
Rental expense – operating lease	<b>(503,145)</b>	(409,531)
Foreign exchange differences, net	<b>(78,454)</b>	27,671
Bad debts recovery/(written off)	<b>48,591</b>	(57,591)
Personnel and related costs:		
– salaries and bonus	<b>(3,891,099)</b>	(3,746,335)
– directors' fees	<b>(69,448)</b>	(76,237)
– employer's contributions to Central Provident Fund	<b>(285,477)</b>	(251,710)

# Notes to the Financial Statements

31 December 2013

## 20. Taxation

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

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

	Group	
	2013	2012
	US\$	US\$
Current income tax:		
Overprovision in respect of previous year	27,838	–
	<b>27,838</b>	–
Deferred income tax:		
Origination and reversal of temporary differences	303,184	176,765
Overprovision of deferred tax liability in respect of previous years	20,268	–
	<b>323,452</b>	176,765
Income tax benefit recognised in the statement of comprehensive income	<b>351,290</b>	176,765

### (b) Relationship between tax benefit and accounting profit

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

	Group	
	2013	2012
	US\$	US\$
Accounting (loss)/profit before income tax	<b>(392,221)</b>	417,077
Tax benefit/(expense) on profit before taxation at 17% (2012: 17%)	66,678	(70,903)
Income not subject to tax	885	1,057
Non-deductible expenses	<b>(56,443)</b>	(12,871)
Effect of partial tax exemption	–	26,842
Tax benefits from Productivity and Innovation Credit	312,555	223,969
Share of results of joint venture	<b>(39,063)</b>	(24,925)
Net overprovision in respect of previous years	48,106	–
Others	18,572	33,596
Tax benefit	<b>351,290</b>	176,765

# Notes to the Financial Statements

31 December 2013

## 21. 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>2013</b>	2012
	<b>US\$</b>	US\$
(Loss)/profit net of tax attributable to shareholders	<b>(40,931)</b>	593,842

	<b>Number of shares</b>	Number of shares
	<b>'000</b>	'000
Weighted average number of ordinary shares for basic and diluted earnings per share computation	<b>89,574</b>	82,440

# Notes to the Financial Statements

31 December 2013

## 22. 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 2013 and 2012 are as follows:

#### (a) Revenue

	2013		Group		2012	
	US\$'000	%	US\$'000		US\$'000	%
Europe	4,636	20	4,537		4,537	18
East Asia	4,184	18	5,725		5,725	23
South Asia*	12,623	55	14,380		14,380	57
Others	1,637	7	427		427	2
<b>Total</b>	<b>23,080</b>	<b>100</b>	<b>25,069</b>		<b>25,069</b>	<b>100</b>

\* This includes revenue from Singapore of US\$11,306,897 (2012: 9,761,880).

#### (b) Non-current assets

Non-current assets of US\$7,292,874 (2012: US\$8,879,141) which consist of property, plant and equipment and investment in joint venture are located in South Asia for the year ended 31 December 2013.

#### (c) Information about major customers

Revenues from top ten customers of the Group's single segment represent approximately 90.9% (2012: 93.6%) of the Group's total revenues. These customers are located in East Asia, South Asia, Europe and Eastern Africa.

# Notes to the Financial Statements

31 December 2013

## 23. Related party transactions

	2013	Group 2012
	US\$	US\$
<b>(a) Sales and purchases of goods and services</b>		
With joint venture:		
Interest income	48,036	14,859
Rental income	24,746	55,880
Costs recharged	–	313
With related party:		
Interest income	19,946	–
<b>(b) Compensation of key management personnel</b>		
Short-term employee benefits	922,983	440,707
Central Provident Fund contributions	48,606	20,142
	<b>971,589</b>	460,849
<i>Comprise amounts paid to:</i>		
Directors of the Company	449,615	460,849

## 24. 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:

	2013	Group 2012
	US\$	US\$
Not later than 1 year	471,648	478,962
Later than 1 year but not later than 5 years	1,387,898	1,370,414
	<b>1,859,546</b>	1,849,376

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 2013

## 25. Contingent liabilities

	Group	
	2013	2012
	US\$	US\$
Bankers' guarantees	209,268	182,710
Corporate guarantees	1,789,358	209,250

The outstanding bankers' guarantees were in respect of certain performance bonds in the ordinary course of business as at 31 December 2013.

The subsidiary of the Group has stood as guarantor for the provision of banks' equipment term loans aggregating approximately USD1,789,000 (2012: USD209,000) to a joint venture of the Group.

## 26. Dividends

	Group		Company	
	2013	2012	2013	2012
	US\$	US\$	US\$	US\$
<b><i>Declared and paid during the financial year</i></b>				
Final exempt (one-tier) dividend for 2013 of S\$0.30 cents (2012: S\$0.65 cents) per ordinary share	200,433	432,354	200,433	432,354
<b><i>Proposed but not recognised as a liability as at 31 December:</i></b>				
<i>Dividends on ordinary shares, subject to shareholders approval at the AGM</i>				
Final exempt (one-tier) dividend for 2013 of NIL cents (2012: S\$0.30 cents) per ordinary share	-	202,108	-	202,108

# Notes to the Financial Statements

31 December 2013

## 27. 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 2013, 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.

### *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% (2012: 1%) change in SGD and EUR, with all other variables held constant, on the Group's profit after taxation.

		<b>Group</b>	
		<b>2013</b>	2012
		<b>US\$</b>	US\$
		<b>Profit after tax</b>	Profit after tax
		<b>Increase/ (Decrease)</b>	Increase/ (Decrease)
<hr/>			
Against USD			
SGD	Strengthened	<b>(2,256)</b>	1,490
	Weakened	<b>2,256</b>	(1,490)
EUR	Strengthened	<b>(11,219)</b>	(12,674)
	Weakened	<b>11,219</b>	12,674
<hr/>			

# Notes to the Financial Statements

31 December 2013

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

### 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.

### *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:

	2013		2012	
	US\$	% of total	US\$	% of total
<b>By geographical segments:</b>				
South Asia	1,620,009	47	1,328,676	60
East Asia	637,183	18	510,213	23
Europe	1,203,286	35	343,569	15
Others	2,835	–	39,150	2
<b>Total</b>	<b>3,463,313</b>	<b>100</b>	<b>2,221,608</b>	<b>100</b>

### *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 2013

## 27. 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 of interest rates by 100 (2012: 100) basis points lower/higher with all other variables held constant on the Group's profit after tax as a result of change in interest rates on floating rate bank balances and loans and borrowings.

	<b>2013</b>	2012
	<b>US\$</b>	US\$
	<b>Profit after tax</b>	Profit after tax
	<b>Increase/ (Decrease)</b>	Increase/ (Decrease)
Increase by 100 basis points	<b>(18,436)</b>	(19,306)
Decrease by 100 basis points	<b>18,436</b>	19,306

### 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, 100% (2012: 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 2013

## 27. 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.

	One year or less US\$	One to five years US\$	Over five years US\$	Total US\$
<b>Group</b>				
<b>2013</b>				
<b>Financial assets:</b>				
Trade and other receivables	5,067,717	–	–	5,067,717
Cash and cash equivalents	3,918,730	–	–	3,918,730
Total undiscounted financial assets	8,986,447	–	–	8,986,447
<b>Financial liabilities:</b>				
Trade payables	3,401,815	–	–	3,401,815
Other payables and accruals	928,725	–	–	928,725
Loans and borrowings	2,430,954	–	–	2,430,954
Total undiscounted financial liabilities	6,761,494	–	–	6,761,494
Total net undiscounted financial assets	2,224,953	–	–	2,224,953
<b>2012</b>				
<b>Financial assets:</b>				
Trade and other receivables	2,839,185	–	–	2,839,185
Cash and cash equivalents	4,276,870	–	–	4,276,870
Total undiscounted financial assets	7,116,055	–	–	7,116,055
<b>Financial liabilities:</b>				
Trade payables	3,425,798	–	–	3,425,798
Other payables and accruals	595,280	–	–	595,280
Amount due to joint venture	6,062	–	–	6,062
Loans and borrowings	3,379,280	–	–	3,379,280
Total undiscounted financial liabilities	7,406,420	–	–	7,406,420
Total net undiscounted financial liabilities	(290,365)	–	–	(290,365)

# Notes to the Financial Statements

31 December 2013

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

Liquidity risk (cont'd)

	One year or less US\$	One to five years US\$	Over five years US\$	Total US\$
<b>Company</b>				
<b>2013</b>				
<b>Financial assets:</b>				
Cash and cash equivalents	13,788	–	–	13,788
Amount due from subsidiary	1,534,257	–	–	1,534,257
Total undiscounted financial assets	1,548,045	–	–	1,548,045
<b>Financial liabilities:</b>				
Other payables and accruals	94,756	–	–	94,756
Total undiscounted financial liabilities	94,756	–	–	94,756
Total net undiscounted financial assets	1,453,289	–	–	1,453,289
<b>2012</b>				
<b>Financial assets:</b>				
Cash and cash equivalents	8,147	–	–	8,147
Amount due from subsidiary	634,013	–	–	634,013
Total undiscounted financial assets	642,160	–	–	642,160
<b>Financial liabilities:</b>				
Other payables and accruals	77,953	–	–	77,953
Amount due to joint venture	6,062	–	–	6,062
Total undiscounted financial liabilities	84,015	–	–	84,015
Total net undiscounted financial assets	558,145	–	–	558,145

## 28. Fair value of assets and liabilities

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.

### Assets and liabilities whose carrying amount approximate fair value

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

# Notes to the Financial Statements

31 December 2013

## 29. Capital management

The primary objective of the Group's capital management is to ensure that it maintains a strong credit standing 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 2013 and 31 December 2012.

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% (2012: 150%) and net worth not less than SGD4,500,000 (2012: 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.

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

	<b>Group</b>	
	<b>2013</b>	2012
	<b>US\$</b>	US\$
Total gross debt:		
Loans and borrowings	<b>2,412,056</b>	3,340,658
Shareholders' funds:		
Share capital	<b>10,236,190</b>	9,125,528
Revenue reserves	<b>7,023,291</b>	7,264,655
Merger reserve	<b>(4,988,397)</b>	(4,988,397)
	<b>12,271,084</b>	11,401,786
Gross debt equity ratio	<b>0.20</b>	0.29
Cash and cash equivalents	<b>3,918,730</b>	4,276,870
Less: Total gross debt	<b>(2,412,056)</b>	(3,340,658)
Net cash position	<b>1,506,674</b>	936,212

## 30. Authorisation of financial statements

The audited financial statements as at and for the financial year ended 31 December 2013 were authorised for issue in accordance with a resolution of directors on 21 March 2014.

# Shareholdings Statistics

As at 14 March 2014

Number of Shares	:	96,440,002 <sup>#</sup>
Class of Shares	:	Ordinary Shares
Voting Rights	:	One vote per share

<sup>#</sup> The Company does not have any treasury shares

## SUBSTANTIAL SHAREHOLDERS

(As recorded in the Register of Substantial Shareholders as at 14 March 2014)

Name of Substantial Shareholder	Direct Interest	%	No. of Shares	
			Deemed Interest	%
Tan Gee Beng Private Limited	51,170,000	53.06	–	–
Smartron Technology Pte Ltd	14,150,000	14.67	–	–
Tan Ah Chew	8,845,000	9.17	290,000*	0.30
Tan Tong Guan	565,001	0.59	51,170,000**	53.06
Tan Geok Moey	–	–	51,170,000**	53.06
Tan Yoke Hong	–	–	51,170,000**	53.06
Ho Yuet Hoe Jenny @ Ho Yuet Heng	–	–	14,150,000***	14.67

### Notes:

\* Mr Tan Ah Chew is deemed to have an interest in the 290,000 shares held by his spouse.

\*\* 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 14 March 2014, approximately 18.60% 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 14 March 2014

## DISTRIBUTION OF SHAREHOLDINGS

Size of Shareholdings	No. of Shareholders	%	No. of Shares	%
1 – 999	0	0.00	0	0.00
1,000 – 10,000	330	72.69	1,186,000	1.23
10,001 – 1,000,000	118	25.99	10,696,001	11.09
1,000,001 AND ABOVE	6	1.32	84,558,001	87.68
<b>TOTAL</b>	<b>454</b>	<b>100.00</b>	<b>96,440,002</b>	<b>100.00</b>

## TWENTY LARGEST SHAREHOLDERS

No.	Name	No. of Shares	%
1	TAN GEE BENG PRIVATE LTD	51,170,000	53.06
2	SMARTRON TECHNOLOGY PTE LTD	14,150,000	14.67
3	TAN AH CHEW	8,845,000	9.17
4	ANG AH NUI	4,772,000	4.95
5	NG ENG SENG	3,480,001	3.61
6	TAN BOON KIAT VINCENT (CHEN WENJIE VINCENT)	2,141,000	2.22
7	LIM BAN THOON	1,000,000	1.04
8	ANG SIN LIU	772,000	0.80
9	CIMB SECURITIES (SINGAPORE) PTE. LTD.	685,000	0.71
10	TAN TONG GUAN	565,001	0.59
11	PHILLIP SECURITIES PTE LTD	502,000	0.52
12	LIM KIAN HENG	500,000	0.52
13	TAN KOON HUA (CHEN KUNHUA)	305,000	0.32
14	SIM AI LIAN	290,000	0.30
15	LIM KIAT HUA	230,000	0.24
16	MARCUS STEPHAN HAUER	230,000	0.24
17	SIO SIT PO	220,000	0.23
18	ANG CHIAN POH	200,000	0.21
19	ONG BEE DEE	200,000	0.21
20	WONG CHOY PENG	200,000	0.21
	<b>TOTAL</b>	<b>90,457,002</b>	<b>93.82</b>

# Notice of Annual General Meeting

**NOTICE IS HEREBY GIVEN** that the Annual General Meeting of SMARTFLEX HOLDINGS LTD. ("the Company") will be held at NTUC Centre, Room 701, No.1 Marina Boulevard, Singapore 018989, on Friday, 25 April 2014 at 4.15 p.m. for the following purposes:

## AS ORDINARY BUSINESS

1. To receive and adopt the Directors' Report and the Audited Accounts of the Company and the Group for the financial year ended 31 December 2013 together with the Auditors' Report thereon. **(Resolution 1)**
2. To re-elect Mr Tan Tong Guan, a Director who is retiring pursuant to Article 91 of the Articles of Association of the Company.  
  
[See Explanatory Note (i)] **(Resolution 2)**
3. To re-elect Mr Chan Kum Kit, a Director who is retiring pursuant to Article 91 of the Articles of Association of the Company.  
  
[See Explanatory Note (ii)] **(Resolution 3)**
4. To approve the payment of Directors' fees of S\$86,000 for the financial year ended 31 December 2013. (2012: S\$82,000) **(Resolution 4)**
5. To re-appoint Messrs Ernst & Young LLP as the Auditors of the Company and to authorise the Directors of the Company to fix their remuneration. **(Resolution 5)**
6. To transact any other ordinary business which may properly be transacted at an Annual General Meeting.

## AS SPECIAL BUSINESS

To consider and if thought fit, to pass the following resolutions as Ordinary Resolutions, with or without any modifications:

7. Authority to issue shares in the capital of the Company pursuant to Section 161 of the Companies Act, Cap. 50 and Rule 806 of the Listing Manual – Section B: Rules of Catalyst of the Singapore Exchange Securities Trading Limited

# Notice of Annual General Meeting

That pursuant to Section 161 of the Companies Act, Cap. 50 and Rule 806 of the Listing Manual – Section B: Rules of Catalist of the Singapore Exchange Securities Trading Limited ("SGX-ST"), the Directors of the Company be authorised and empowered to:

- (a) (i) issue shares in the Company ("shares") 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 of the Company may in their absolute discretion deem fit; and

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

(the "Share Issue Mandate")

provided that:

- (1) the aggregate number of shares (including shares to be issued pursuant to the Instruments, made or granted pursuant to this Resolution) and Instruments to be issued pursuant to this Resolution shall not exceed one hundred per centum (100%) of the total number of issued shares (excluding treasury shares) in the capital of the Company (as calculated in accordance with sub-paragraph (2) below), of which the aggregate number of shares and Instruments to be issued other than on a *pro rata* basis to existing shareholders of the Company shall not exceed fifty per centum (50%) of the total number of issued shares (excluding treasury shares) in the capital of the Company (as calculated in accordance with sub-paragraph (2) below);
- (2) (subject to such calculation as may be prescribed by the SGX-ST) for the purpose of determining the aggregate number of shares and Instruments that may be issued under sub-paragraph (1) above, the total number of issued shares and Instruments shall be based on the total number of issued shares (excluding treasury shares) in the capital of the Company at the time of the passing of this Resolution, after adjusting for:
  - (a) new shares arising from the conversion or exercise of the Instruments or any convertible securities;
  - (b) new shares arising from exercising share options or vesting of share awards outstanding or subsisting at the time of the passing of this Resolution; and
  - (c) any subsequent bonus issue, consolidation or subdivision of shares;

# Notice of Annual General Meeting

- (3) in exercising the Share Issue Mandate conferred by this Resolution, the Company shall comply with the provisions of the Listing Manual – Section B: 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 of the Company; and
- (4) unless revoked or varied by the Company in a general meeting, the Share Issue Mandate shall continue in force (i) until the conclusion of the next Annual General Meeting ("AGM") of the Company or the date by which the next AGM of the Company is required by law to be held, whichever is earlier or (ii) in the case of shares to be issued in pursuance of the Instruments, made or granted pursuant to this Resolution, until the issuance of such shares in accordance with the terms of the Instruments.

[See Explanatory Note (iii)]

**(Resolution 6)**

By Order of the Board

Nathaniel C.V.  
Company Secretary

Singapore, 10 April 2014

## Explanatory Notes:

- (i) Mr Tan Tong Guan will upon re-election as a Director of the Company remain as an Executive Chairman of the Company.
- (ii) Mr Chan Kum Kit will upon re-election as a Director of the Company remain as Chairman of the Audit Committee and a member of the Remuneration Committee and Nominating Committee. Mr Chan is considered independent pursuant to Rule 704(7) of the Listing Manual – Section B: Rules of Catalist of the Singapore Exchange Securities Trading Limited.
- (iii) Resolution 7, if passed, will empower the Directors of the Company from the date of this AGM until the date of the next AGM of the Company, or the date by which the next AGM of the Company is required by law to be held or such authority is varied or revoked by the Company in a general meeting, whichever is the earlier, to issue shares, make or grant instruments convertible into shares and to issue shares pursuant to such instruments, up to a number not exceeding, in total, one hundred per centum (100%) of the total number of issued shares (excluding treasury shares) in the capital of the Company, of which up to fifty per centum (50%) may be issued other than on a *pro rata* basis to existing shareholders of the Company.

For determining the aggregate number of shares that may be issued, the percentage of issued shares in the capital of the Company will be calculated 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 new shares arising from the conversion or exercise of the Instruments or any convertible securities, the exercise of share options or the vesting of share awards outstanding or subsisting at the time when this Resolution is passed and any subsequent consolidation or subdivision of shares.

# Notice of Annual General Meeting

## Notes:

1. A Member entitled to attend and vote at the Annual General Meeting (the "Meeting") may appoint more than one proxy to attend and vote in his/her stead. A member of the Company, which is a corporation, is entitled to appoint its authorised representative or proxy to vote on its behalf. A proxy need not be a Member of the Company.
2. The instrument appointing a proxy must be deposited at the Registered Office of the Company at 27 Ubi Road 4, #04-01, Singapore 408618, not later than forty-eight (48) hours before the time appointed for holding Annual General Meeting.
3. This announcement and its contents have been reviewed by the Company's sponsor, RHT Capital Pte. Ltd. ("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 Catalist ("Catalist Rules"). The Sponsor has not independently verified the contents of this announcement.

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

The contact person for the Sponsor is Mr Chew Kok Liang, Registered Professional, RHT Capital Pte Ltd, Six Battery Road, #10-01, Singapore 049909, telephone (65) 6381-6757.

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# SMARTFLEX HOLDINGS LTD.

(Company Registration No. 201003501R)  
(Incorporated In the Republic of Singapore)

## PROXY FORM

(Please see notes overleaf before completing this Form)

### IMPORTANT:

1. For investors who have used their CPF monies to buy Smartflex Holdings Ltd.'s shares, this Report is forwarded to them at the request of the 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 attend the Meeting as an observer must submit their requests through their CPF Approved Nominees within the time frame specified. If they also wish to vote, they must submit their voting instructions to the CPF Approved Nominees within the time frame specified to enable them to vote on their behalf.

I/We, \_\_\_\_\_

of \_\_\_\_\_

being a member/members of Smartflex Holdings Ltd. (the "Company"), hereby appoint:

Name	NRIC/Passport No.	Proportion of Shareholdings	
		No. of Shares	%
Address			

and/or (delete as appropriate)

Name	NRIC/Passport No.	Proportion of Shareholdings	
		No. of Shares	%
Address			

or failing the person, or either or both of the persons, referred to above, the Chairman of the Meeting as my/our proxy/proxies to vote for me/us on my/our behalf at the Annual General Meeting ("Meeting") of the Company to be held at NTUC Centre, Room 701, No.1 Marina Boulevard, Singapore 018989, on Friday, 25 April 2014 at 4.15 p.m. and at any adjournment thereof. I/We direct my/our proxy/proxies to vote for or against the Resolutions proposed at the Meeting as indicated hereunder. If no specific direction as to voting is given or in the event of any other matter arising at the Meeting and at any adjournment thereof, the proxy/proxies will vote or abstain from voting at his/her discretion. The authority herein includes the right to demand or to join in demanding a poll and to vote on a poll.

(Please indicate your vote "For" or "Against" with a tick [✓] within the box provided.)

No.	Resolutions relating to:	For	Against
1.	Directors' Report and Audited Accounts for the year ended 31 December 2013		
2.	Re-election of Mr Tan Tong Guan as a Director of the Company		
3.	Re-election of Mr Chan Kum Kit as a Director of the Company		
4.	Approval of Directors' fees		
5.	Re-appointment of Messrs Ernst & Young LLP as Auditors		
6.	Authority to issue additional shares pursuant to Section 161 of the Companies Act Cap. 50		

Dated this \_\_\_\_\_ day of \_\_\_\_\_ 2014

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

\_\_\_\_\_  
Signature of Shareholder(s)  
or, Common Seal of Corporate Shareholder

\* Delete where inapplicable



**Notes:**

1. 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.
2. A member of the Company entitled to attend and vote at a meeting of the Company 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.
3. Where a member appoints more than one proxy, he shall specify the proportion of his shareholding to be represented by each proxy. If no such proportion or number is specified the first named proxy may be treated as representing 100% of the shareholding and any other named proxy as alternate(s) to the first named.
4. Completion and return of this instrument appointing a proxy shall not preclude a member from attending and voting at the Meeting. Any appointment of a proxy or proxies shall be deemed to be revoked if a member attends the meeting in person, and in such event, the Company reserves the right to refuse to admit any person or persons appointed under the instrument of proxy to the Meeting.
5. The instrument appointing a proxy or proxies must be deposited at the registered office of the Company at 27 Ubi Road 4, #04-01, Singapore 408618 not later than 48 hours before the time appointed for the Meeting.
6. The instrument appointing a proxy or proxies must be under the hand of the appointor or of his attorney duly authorised in writing. Where the instrument appointing a proxy or proxies is executed by a corporation, it must be executed either under its seal or under the hand of an officer or attorney duly authorised. Where the instrument appointing a proxy or proxies is executed by an attorney on behalf of the appointor, the letter or power of attorney or a duly certified copy thereof must be lodged with the instrument.
7. A corporation which is a member may authorise by resolution of its directors or other governing body such person as it thinks fit to act as its representative at the Meeting, in accordance with Section 179 of the Companies Act, Chapter 50 of Singapore.

**General:**

The Company shall be entitled to reject the instrument appointing a proxy or proxies if it is incomplete, improperly completed or illegible, or where the true intentions of the appointor are not ascertainable from the instructions of the appointor specified in the instrument appointing a proxy or proxies. In addition, in the case of Shares entered in the Depository Register, the Company may reject any instrument appointing a proxy or proxies lodged if the member, being the appointor, is not shown to have Shares entered against his name in the Depository Register as at 48 hours before the time appointed for holding the Meeting, as certified by The Central Depository (Pte) Limited to the Company.





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

**Principal Place of Business:**  
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