Smartflex Holdings Ltd.

(Company Registration No. 201003501R)

STRIVING TOWARDS CONTINUOUS IMPROVEMENT & INNOVATION

Annual Report 2015

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.

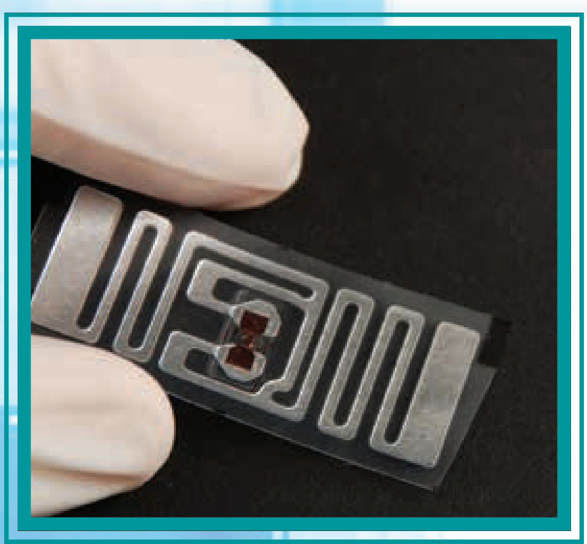
The contact person for the Sponsor is Mr Chew Kok Liang, Registered Professional, RHT Capital Pte Ltd, Six Battery Road, #10-01, Singapore 049909, telephone (65) 6381 6757.

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.

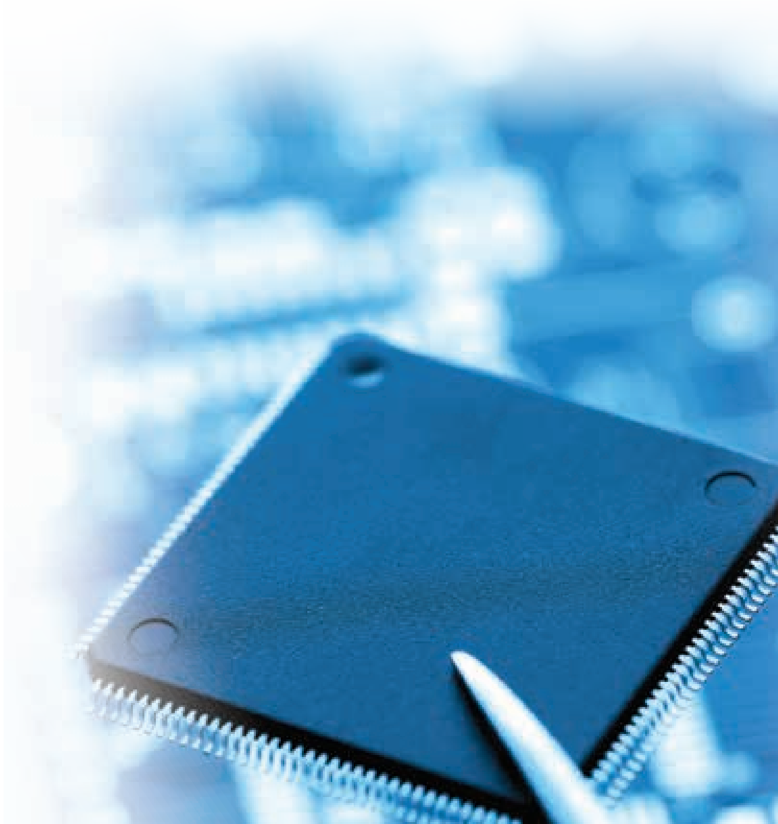


CORPORATE PROFILE

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, 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, 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. In February 2015, we also obtained the Common Criteria site certification of Evaluation Assurance Level Five Augmented under Agence Nationale de la Sécurité des Systèmes d'Information.



FINANCIAL HIGHLIGHTS

2015

Revenue	Gross Profit	Profit/(loss) after tax	Shareholders' funds
27.5	7.9	5.2	19.9

(US$ million)

2014

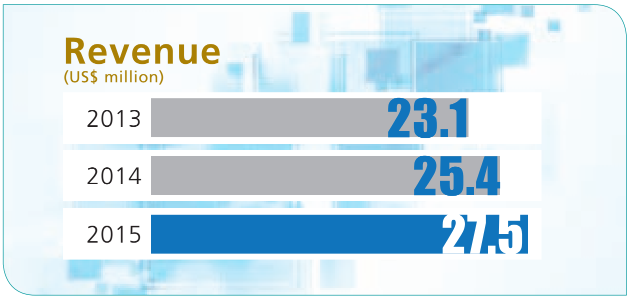
Revenue	Gross Profit	Profit/(loss) after tax	Shareholders' funds
25.4	6.1	1.2	15.8

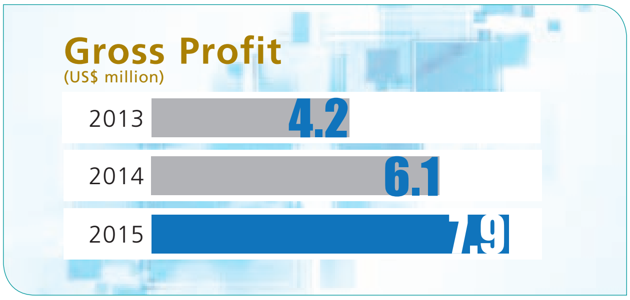
(US$ million)

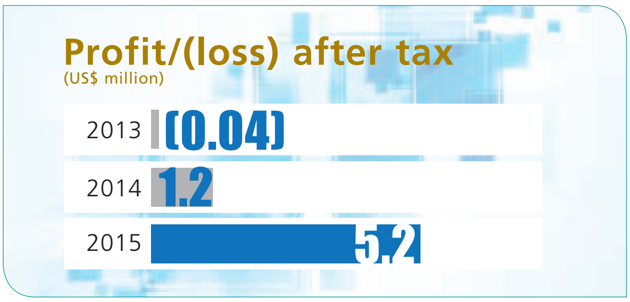
2013

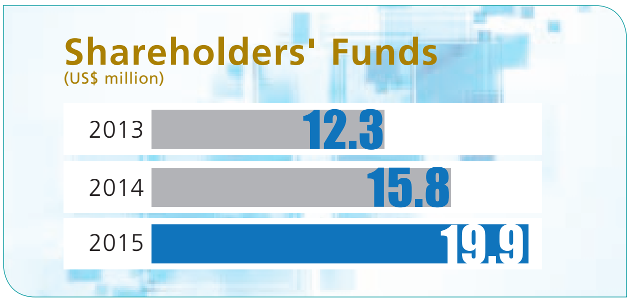
Revenue	Gross Profit	Profit/(loss) after tax	Shareholders' funds
23.1	4.2	(0.04)	12.3

(US$ million)









CHAIRMAN'S STATEMENT

Dear Shareholders,

The Group is pleased to deliver a year of significant achievements in FY2015. We turned in rising revenue of 8.2% to US$27.52 million and ended with net profit of US$5.23 million against US$1.21 million in FY2014 even as we manoeuvred through difficult times.

The reporting year presented several challenges for the Group, including a tight labour market and uncertain business environment. Given that the telecom products segment faced falling demand and price erosion, we shifted our focus on increasing business in the banking and security products with higher margins, as well as developing our patented solution, which we plan to launch in FY2016.

As the financial sector places growing emphasis on security, high-end secure banking products become increasingly popular. We have been enhancing our product portfolio in this aspect and our efforts have been recognised as we were awarded the Common Criteria ("CC") site certification at Evaluation Assurance Level Five Augmented ("EAL5+") on 3 March 2015. This accreditation underscored our achievement in attaining a higher level of security assurance and instilled confidence in our enlarged customer base.

Separately, on 30 September 2015, the Group acquired from our partner the remaining 30% equity interest in our joint venture, Smartflex Innovation Pte. Ltd. ("Smartflex Innovation"), rendering the entity to become a wholly-owned subsidiary of the Group. This will allow us to better align our business focus and reap synergy from our subsidiaries. Concurrently, Smartflex Innovation was also granted a technology patent by the Intellectual Property office of the Philippines, the latest addition to our plethora of patent achievements which spans more than 10 countries including France, Germany and United Kingdom. These patents are further testaments to our technological capabilities.

During the year, the Group achieved higher gross profit margin of 28.6% from 24.2% in the financial year ended 31 December 2014 ("FY2014") as a result of successfully shifting more than 50% of our total module into banking products during the second half of the financial year ended 31 December 2015 ("FY2015"). As such, our bottom line improved significantly.

Moving Forward

In the near future, we expect demand for banking products to grow alongside the migration trend from magnetic stripe bank cards to secure chip cards in high market growth countries like China, India and America, although price competition is anticipated to intensify as well. On the other hand, the telecom products segment looks set to remain challenging as demand declines and price erosion persists. To overcome this, we are looking to use our patented solution to gain a competitive edge in the market and set us apart from other players.

In view of the current situation, the Group will continue to focus on expanding our banking segment as we develop new strategies to capitalise on developing our proprietary solutions to raise our margin and competitiveness. Nevertheless, we remain cautiously optimistic amidst the uncertain global outlook in 2016 as we are supported by our wider margin banking products.

As part of our strategy to unlock values for our shareholders, we have entered into a non-binding agreement with Novo Tellus PE Fund1, L.P. and/or its affiliates to divest the entire stake of Smartflex Technology Pte. Ltd. and Smartflex Innovation for a consideration of up to S$26.08 million. We will release further details to update our shareholders as the deal progresses.

Dividend

To share our achievements with our shareholders, the Board of Directors has recommended a final cash dividend of S$0.0085 per ordinary share, which will be payable on 19 May 2016, subject to shareholders' approval at the coming Annual General Meeting. Taking into consideration the interim cash dividend of S$0.0085 per ordinary share, FY2015 total dividend would total S$0.017 per ordinary share, translating to a dividend yield of 7% against our share price as at 31 December 2015.

Acknowledgments

I would like to extend a warm welcome to Mr. Goh Hun Keng, who assumed the role of Non-Executive and Independent Director on 24 April 2015. Mr. Goh founded mainboard-listed Eastgate Technology. We believe the Group will be able to benefit greatly from his valuable insights on the technology industry and look forward to a rewarding working relationship.

On behalf of the Board of Directors, I would like thank our management and staff for their commitment and contribution towards the Group. I would also like to show my appreciation to our business associates and partners for their continual support. Finally to our shareholders, thank you for your unwavering faith in the Group's performance over the years. With great confidence, we look forward to another great year ahead.

Mr Tan Tong Guan
Co-founder & Executive Chairman

DIRECTORS PROFILE

Chan Kum Kit, Eric Ng, Tan Tong Guan, Tan Geok Moey, Teo Yi-Dar, Goh Hun Keng

Tan Tong Guan
Co-founder and Executive Chairman

Tan Tong Guan, aged 52, co-founder and Executive Chairman, was appointed to the Board on 17 February 2010 and was last reappointed on 25 April 2014. 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 was previously 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).

Chan Kum Kit
Non-Executive and Independent Director

Chan Kum Kit, aged 63, Independent Director, was appointed to the Board on 15 March 2010 and was last reappointed on 25 April 2014. 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.

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

Eric Ng, aged 45, co-founder, CEO and Executive Director, was appointed to the Board on 17 February 2010 and was last reappointed on 24 April 2015. 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 55, 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.

Goh Hun Keng
Non-Executive and Independent Director

Goh Hun Keng, age 69, Independent Director, was appointed to the Board on 24 April 2015. He is also appointed to be the Chairman of the Nominating Committee. He is presently the Managing Director of Windsia Renewable Energy Pte Ltd. He oversees the corporate planning and product development of Windsia. He founded Main Board-Listed Eastgate Technology Ltd in 1989 and was the chairman and CEO of the Group, responsible for the overall policy-making and business development of the Group. He also co-founded a Main-Board listed electronics manufacturing company in 1978 and was formerly the executive director of the company where he held direct responsibility for its various subsidiaries and associated companies, as well as product development. Mr Goh graduated from the Singapore Polytechnic with a diploma in Telecommunications Engineering.

Teo Yi-Dar
Non-Executive and Independent Director

Teo Yi-Dar, aged 45, was appointed Independent Director of the Company on 22 February 2013 and was last reappointed on 24 April 2015. He is the Chairman of the Remuneration Committee. 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, the lead independent director and audit committee chairman for China YuanBang Property Holdings Ltd and a non-executive director for HG Metal Manufacturing Ltd. Mr Teo is also the non-executive director for HKEx-listed Denox Environmental & Technology Holdings Ltd. Mr Teo was, in preceding three years, a non-executive director of Shenzhen-listed Hainan Shuangcheng Pharmaceuticals Co Ltd and SGX-listed Net Pacific Financial Holdings Limited.

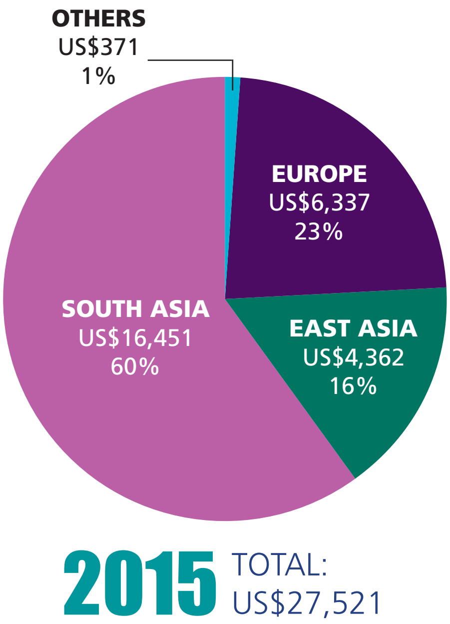
Mr Teo is an Investment Partner with SEAVI Advent Corporation Ltd, the Asian affiliate of Boston-based Advent International private equity group. Mr Teo manages direct investments in Asia, and focuses on the electronics, chemical, engineering and technology segments. Prior to joining SEAVI Advent, he 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.

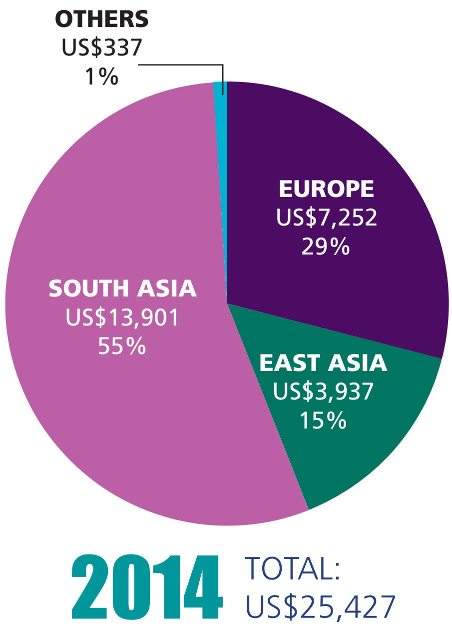
Mr Teo holds two Masters' degrees; Master of Science Degree in Industrial and Systems Engineering (1998) and Master of Science Degree in Applied Finance (2000) from the National University of Singapore. Mr Teo graduated from the same university with a Bachelor of Electrical Engineering (Honours) in 1996.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

OPERATING & FINANCIAL REVIEW

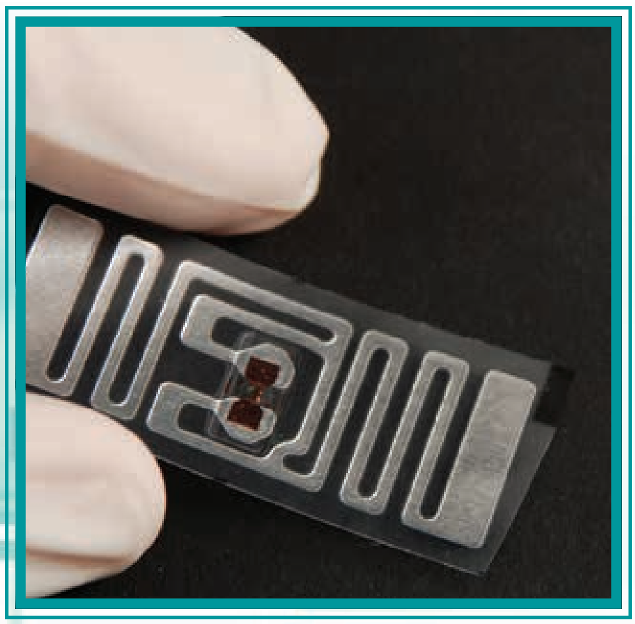
Review of Income Statement

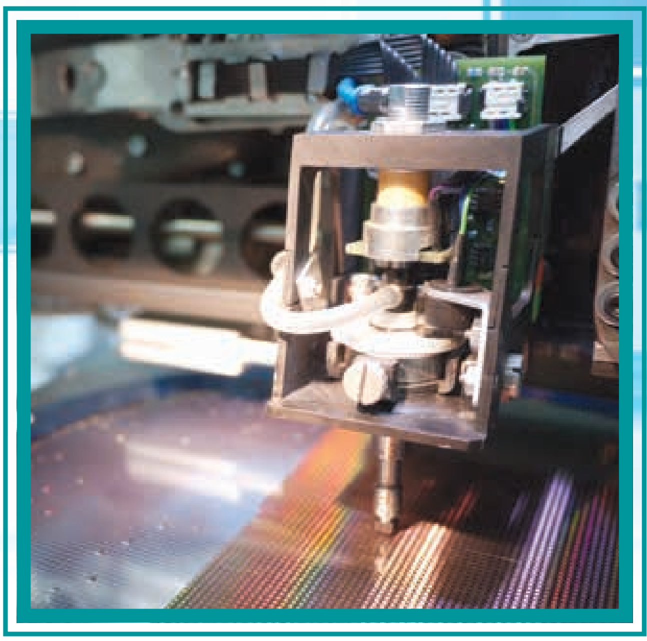
Revenue





The Group registered an 8.2% or US$2.09 million growth in revenue to US$27.52 million in FY2015. This was attributable to a surge in customers' demand and increase in orders in the banking products segment.





Gross profit and Gross margin

Gross profit rose by about US$1.72 million or 28.0% to US$7.87 million in FY2015 against US$6.14 million in FY2014 mainly led by a more favourable sales mix. As such, gross margin was boosted from 24.2% in FY2014 to 28.6% for the reporting year.

Other income

Other income improved by about US$2.33 million or 492.0% from US$0.47 million to US$2.80 million for the year mainly due to a re-measurement gain of US$2.34 million in our Smartflex Innovation Pte. Ltd. ("Smartflex Innovation") investment, arising from the acquisition of the remaining 30% equity interest from our joint venture partner on 30 September 2015. With this development, Smartflex Innovation has become a wholly-owned subsidiary of the Group. Additionally, lower interest income and foreign exchange gain in FY2015 was partially offset by an increase in government grants.

Selling and distribution expenses and Administrative expenses ("Operating expenses")

Operating expenses went up by about US$0.46 million or 9.9% from US$4.69 million in FY2014 to US$5.15 million in FY2015 mainly due to increased staff costs.

Finance costs

Finance expense hiked by US$13,000 or 30.2% to US$56,000 in FY2015 as compared to US$43,000 in FY2014 mainly due to a drawdown of new loans that was offset by lower interest rates in FY2015.

Income tax (credit)/expense

The Group recorded income tax credit of US$0.13 million in FY2015 vis-à-vis tax expense of US$0.32 million in FY2014 was due to the utilisation of the Productivity and Innovation Credit.

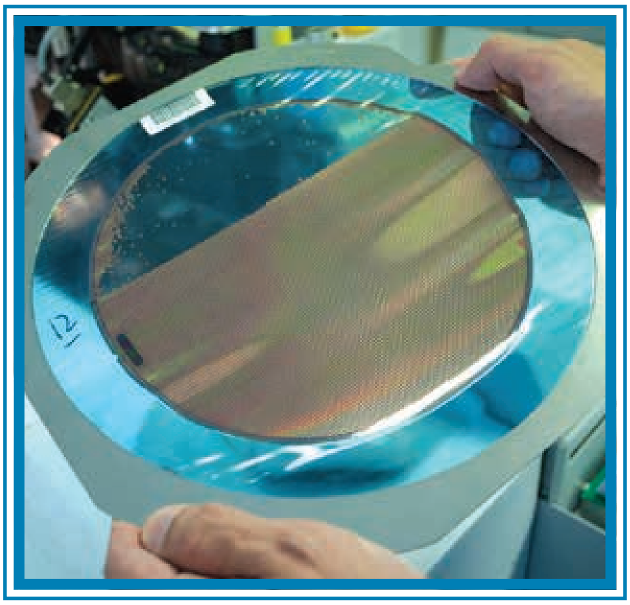
Net profit

Consequently, the Group recorded a net profit attributable to shareholders of US$5.23 million as compared with US$1.21 million in FY2014.

Review of Financial Position

Non-current assets

Plant and equipment rose by about US$3.75 million or 59.0% from the year before after netting depreciation charges of US$1.89 million mainly due to inclusion of fixed assets (US$3.14 million) of Smartflex Innovation, a joint venture entity that is currently a wholly-owned subsidiary. Additional purchase of plant and equipment of US$2.50 million was also made to enhance capacity and production capabilities to support business growth in the banking products.



Current assets

Current assets gained by US$1.13 million to US$17.75 million as at 31 December 2015 mainly attributable to higher operating cash inflow and trade receivables led by q-o-q sales increase in fourth quarter of FY2015, which were partially offset by a decrease in inventories and prepayments.

Current liabilities

Current liabilities increased by US$4.43 million to US$9.79 million as at 31 December 2015 caused by an increase in payables and financing for purchase of equipment and consolidation of Smartflex Innovation, which was partially offset by lower tax provision for the utilisation of the Productivity and Innovation Credit.

Non-current liabilities

Non-current liabilities surged by US$0.41 million to US$2.62 million as at 31 December 2015 mainly led by a drawdown of new loans during the financial year for the acquisition of plant and equipment and increased deferred tax liability arising from the intellectual property obtained from Smartflex Innovation.

Review of Cash Flow Statement

Operating activities generated net cash of US$6.42 million, an increase of US$4.47 million from the previous year mainly due to higher pre-tax operating profit of US$2.76 million, excluding the gain on investment of Smartflex Innovation of US$2.34 million and better working capital management during the year.

Net cash used in investing activities was up US$0.62 million to US$3.37 million in FY2015 with the funds being employed for US$2.50 million of capital expenditures and advances to Smartflex Innovation of US$1.07 million for its operations while it was a joint venture. During the year, the Group acquired the remaining 30% equity stake of Smartflex Innovation for a consideration of US$1.19 million, which was offset against total advances previously made to the other joint venture partner.

Net cash generated from financing activities was US$0.37 million against US$3.44 million in the preceding year. These were accumulated from net proceeds of trade finance facilities of US$1.66 million and a drawdown of new loans of US$0.72 million for purchase of plant and equipment, partially offset by repayments of term loans of US$0.92 million and dividend payments of US$1.1 million.

As a result, cash and cash equivalents stood at US$9.99 million as at 31 December 2015, which translates to an increase of US$3.42 million.

KEY MANAGEMENT PROFILE

Pang Sze Yong
General Manager

Pang Sze Yong, age 44, General Manager, is responsible for the Group's daily business operations and general management, as well as improvement and optimization projects. Mr Pang joined our Group in October 2005 and brings with him more than 15 years of relevant experience in sales, business development and products 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.

Mok Wai Ping
Sales Director

Mok Wai Ping, age 37, Sales Director, is responsible for sales and business development of our Group. Ms Mok joined our Group in 2012 and has more than 10 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.

Ang Wui Khoon
Financial Controller

Ang Wui Khoon, age 45, Financial Controller, is responsible for all the financial matters for the Group. He has 20 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.

Andy Gong Shengjun
Senior Operations Manager

Andy Gong Shengjun, age 36, 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.

Vincent Sim Chee Hui
Senior Human Resource Manager

Vincent Sim Chee Hui, age 48, is the Senior 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.

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
Goh Hun Keng	Independent Director (appointed on 24 April 2015)

Audit Committee

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

Nominating Committee

Goh Hun Keng	Chairman (Independent)
Tan Geok Moey	Member (Non-Executive)
Teo Yi-Dar	Member (Independent)

Remuneration Committee

Teo Yi-Dar	Chairman (Independent)
Chan Kum Kit	Member (Independent)
Goh Hun Keng	Member (Independent)

Company Secretary

Wong Chuen Shya

Registered Office

27 Ubi Road 4 #04-01
Singapore 408618
Telephone: (65) 6787 7133
Fax: (65) 6747 1741
Website: www.smartflex.com.sg
Email: 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
9 Raffles Place #29-01
Republic Plaza Tower 1
Singapore 048619
Telephone: (65) 6381 6888
Fax: (65) 6381 6899

Auditors

Ernst & Young LLP
One Raffles Quay
North Tower, Level 18
Singapore 048583
Telephone: (65) 6535 7777
Fax: (65) 6532 7662

Partner-in-charge: Simon Yeo
(Appointed from the financial year ended
31 December 2014)

Principal Bankers

Australia and New Zealand Banking Group Limited
DBS Bank Ltd
Oversea-Chinese Banking Corporation Limited
Standard Chartered Bank
United Overseas Bank Limited
RHB Bank Berhad

FINANCIAL CONTENTS

REPORT ON CORPORATE GOVERNANCE

Smarflex 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.

REPORT ON CORPORATE GOVERNANCE

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 Constitution. 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.

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.

REPORT ON CORPORATE GOVERNANCE

The attendance of the Directors at meetings of the Board and Board Committees for the financial year ended 31 December 2015 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	2	2	–	2*	–	1*	–	1*
Eric Ng Eng Seng	2	2	–	2*	–	1*	–	1*
Chan Kum Kit	2	2	2	2	1	1	1	1
Goh Hun Keng**	1	1	–	1*	–	–	–	–
Tan Geok Moey	2	2	2	2	1	1	1	1
Teo Yi-Dar	2	2	2	2	1	1	1	1

* Attended by invitation.
** Appointed as Director with effect from 24 April 2015.

Principle 2: Board Composition and Guidance

The Board currently comprises 2 Executive Directors, 1 Non-Executive Director and 3 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
Goh Hun Keng**	Non-Executive and Independent Director
Teo Yi-Dar	Non-Executive and Independent Director

** Note: Appointed as Director with effect from 24 April 2015.

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 Nominating Committee will periodically review the competencies of the Directors to ensure it can govern the Group effectively. Business environment is dynamic, hence when there is a lack of certain expertise or experience, the Nominating Committee will recommend the Board to consider the appointment of new Director(s) that has/have the skillset and knowledge.

REPORT ON CORPORATE GOVERNANCE

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. They will meet on a need-basis without the presence of the Management to discuss on arising issues.

A brief profile of each Director is set out on pages 6-7 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.

The Board has not appointed a lead independent director. Shareholders with serious concerns and for which contact through the normal channels of the Executive Chairman, the Chief Executive Officer or the Financial Controller has failed to resolve or is inappropriate can contact either of the three Independent Directors, who are also the Chairman of the Audit Committee, the Chairman of the Nominating Committee or the Chairman of Remuneration Committee.

Principle 4: Board Membership

The Nominating Committee has written Terms of Reference that sets out its duties and responsibilities. Amongst them, the Nominating Committee is responsible for:–

- 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; and
- to affirm annually the independence of the Directors.

REPORT ON CORPORATE GOVERNANCE

The written terms of reference will 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:

Goh Hun Keng**	Chairman (Non-Executive and Independent)
Tan Geok Moey	Member (Non-Executive)
Teo Yi-Dar	Member (Non-Executive and Independent)

** Appointed as Director with effect from 24 April 2015.

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 ("AGM") 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.

Currently, there is no alternate Director on the Board.

The Nominating Committee met with Mr Goh Hun Keng in late 2014 and was of the view that he had the relevant commercial experience and industry knowledge, and hence would be able to contribute and chart the future business plans for the Company. It was agreed that the appointment of Mr. Goh Hun Keng as Independent Director of the Company took effect from 24 April 2015, after the conclusion of the last AGM of the Company.

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.

REPORT ON CORPORATE GOVERNANCE

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.

The Nominating Committee had decided unanimously, that the Directors will not be evaluated individually but factors taken into consideration for their re-nomination are the extend of their attendance, participation and contribution in the proceedings of the meetings.

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 Board 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.

Principle 7: Procedures for Developing Remuneration Policies

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

Teo Yi-Dar	Chairman (Non-Executive and Independent)
Chan Kum Kit	Member (Non-Executive and Independent)
Goh Hun Keng**	Member (Non-Executive and Independent)

** Note: Appointed as Director with effect from 24 April 2015.

REPORT ON CORPORATE GOVERNANCE

The Remuneration Committee has written Terms of Reference that sets out its duties and responsibilities. Amongst them, the Remuneration Committee is responsible for:–

- recommending 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

- performing 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.

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.

REPORT ON CORPORATE GOVERNANCE

Policy in respect of Non-Executive Directors' remuneration

Non-Executive Directors do not have service agreements with the Company. They are compensated based on fixed Directors' fees, which are determined by the Board based on their contribution, taking into consideration factors such as effort, time spent and responsibilities of the Non-Executive Directors. The Chairman of each Board Committee is paid an additional fee, the Chairman of Audit Committee is paid a higher fee than Chairman of the other Board Committees in view of the higher responsibility carried by that office. The Directors' fees are subject to approval by the shareholders at the AGM. 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 2015 are as follows:

Remuneration band and Name of Director	Base/Fixed salary (%)	Bonus (%)	Directors' fees (%)	Benefits-in-kind (%)	Total (%)
Directors					
S$750,000 to below S$1,000,000					
Eric Ng Eng Seng	44	56	–	–	100
S$250,000 to below S$500,000					
Tan Tong Guan	82	18	–	–	100
Below S$250,000					
Chan Kum Kit	–	–	100	–	100
Goh Hun Keng**	–	–	100	–	100
Tan Geok Moey	–	–	100	–	100
Teo Yi-Dar	–	–	100	–	100

** Note: Appointed as Director with effect from 24 April 2015

Remuneration band and Name of Key Management Personnel	Base/Fixed salary (%)	Bonus (%)	Benefits-in-kind (%)	Total (%)
$250,000 to below S$500,000				
Pang Sze Yong	71	29	–	100
Below S$250,000				
Andy Gong Shengjun	70	30	–	100
Ang Wui Khoon	78	22	–	100
Mok Wai Ping	77	23	–	100
Vincent Sim Chee Hui	83	17	–	100

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 2015 is approximately S$1,035,386.

REPORT ON CORPORATE GOVERNANCE

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 2015. "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 2015.

Principle 10: Accountability

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

Principle 11: 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, compliance and information technology 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 FY2015, 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 and risk management system in place are 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.

REPORT ON CORPORATE GOVERNANCE

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 systems in addressing the financial, operational, compliance and information technology risks and risk management systems of the Group are adequate and effective for FY2015.

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 key management personnel of the Group to attend its meetings, and reasonable resources to enable it to discharge its functions properly.

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

The Audit Committee has written Terms of Reference that sets out its duties and responsibilities. Amongst them, the Audit Committee is responsible for:–

- Reviewing the scope and results of the audit and its cost effectiveness;
- Reviewing 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;
- Making 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;
- Reviewing with the independent auditor the audit plan, their evaluation of the system of internal accounting controls, their letter to Management and the Management's response;
- Reviewing 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;

REPORT ON CORPORATE GOVERNANCE

- Reviewing 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);

- Reviewing and discussing 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;

- Reviewing interested person transactions (if any) falling within the scope of Chapter 9 of the Rules of Catalist;

- Reviewing potential conflicts of interest (if any);

- Reviewing with the internal auditor 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;

- Reviewing and establishing 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;

- Reviewing 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;

- Reviewing the Group's compliance with relevant government regulations and licensing requirements;

- Undertaking 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, undertaking such other functions and duties as may be required by statute or by the Rules of Catalist, or by such amendments as may be made thereto from time to time.

The Audit Committee will meet with the independent auditor and with internal auditor, at least annually, without the presence of Management. The Audit Committee will review the independence and objectivity of independent auditor 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 Company has put in place a whistle-blowing policy, whereby anyone may, in good faith and in confidence, raise concerns or observations about possible corporate malpractices and improprieties in financial reporting or other matters directly to Mr Chan Kum Kit, Chairman of the Audit Committee.

REPORT ON CORPORATE GOVERNANCE

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.

Principle 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.

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 and inputs, and address shareholders' concerns. The chairpersons and/or members of the Board, Audit Committee, Remuneration Committee and Nominating Committee 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 Constitution currently does not allow a member to appoint more than two proxies to attend and vote at the same general meetings. With effect from 3 January 2016, the Companies Act, Cap. 50 was amended, amongst others, to allow certain members, defined as "relevant intermediary" to attend and participate in general meetings. Relevant intermediary includes corporations holding licences in providing nominee and custodial services and CPF Board which purchases shares on behalf of the CPF Investors.

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.

REPORT ON CORPORATE GOVERNANCE

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 Catalist. The Securities Dealings Best Practices provide guidance to the Directors and employees of the Group with regard to dealing in the Company's securities.

The Company issues circulars or electronics mails to its Directors, 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.

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.

Subsequent year end event

On 29 January 2016, the Company has entered into a non-binding term sheet with Novo Tellus PE Fund 1, L.P. and/or its affiliates in respect of the disposal of the entire issued share capital of its subsidiaries, Smartflex Technology Pte Ltd and Smartflex Innovation Pte Ltd, held by the Company, for a consideration of up to S$26,080,000, subject to the entry into a sale and purchase agreement.

REPORT ON CORPORATE GOVERNANCE

Fees Paid to Independent Auditor

Ernst & Young LLP, the independent auditor, rendered the following services (and charged the fees) set out below for the financial year ended 31 December 2015:

	Group	
	2015	2014
	$'000	$'000
Audit fees – current year	**50**	37
– Over-provision in prior year	**(7)**	(11)
Non-audit fees:		
Tax returns compliance service – Current year	**15**	10
– Under provision in prior year	**(3)**	5
Total audit and non-audit fees	**55**	41

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 2015.

DIRECTORS' STATEMENT

The directors are pleased to present their statement to the members together with the audited consolidated financial statements of Smartflex Holdings Ltd. (the "Company") and its subsidiaries (collectively, the "Group") and the balance sheet and statement of changes in equity of the Company for the financial year ended 31 December 2015.

Opinion of the directors

In the opinion of the directors,

(a) the consolidated financial statements of the Group and the balance sheet and statement of changes in equity of the Company are drawn up so as to give a true and fair view of the financial position of the Group and of the Company as at 31 December 2015 and the financial performance, 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.

Directors

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

Tan Tong Guan
Eric Ng Eng Seng
Chan Kum Kit
Goh Hun Keng
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' STATEMENT

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:

	Number of ordinary shares			
	Direct interest		Deemed interest	
Name of director	**At the beginning of financial year**	**At the end of financial year**	**At the beginning of financial year**	**At the end of financial year**
The Company				
Tan Tong Guan	565,001	565,001	57,139,331	57,139,331
Eric Ng Eng Seng	3,480,001	3,480,001	–	–
Tan Geok Moey	–	–	57,139,331	57,139,331
Ultimate holding company				
Tan Gee Beng Pte Ltd				
Tan Tong Guan	16,975	16,975	7,333	7,333
Tan Geok Moey	11,120	11,120	–	–

Tan Tong Guan and Tan Geok Moey are deemed to have an interest in the shares of the Company's subsidiaries in proportion to the Company's interest in the subsidiaries by virtue of their interest in more than 20% of the issued share capital of the Company as provided by section 7 of the Companies Act, Chapter 50.

There was no change in any of the above-mentioned interests in the Company between the end of the financial year and 21 January 2016.

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.

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.

DIRECTORS' STATEMENT

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
23 March 2016

INDEPENDENT AUDITOR'S REPORT

To the Members of Smartflex Holdings Ltd.

For the financial year ended 31 December 2015

Report on the Financial Statements

We have audited the accompanying financial statements of Smartflex Holdings Ltd. (the "Company") and its subsidiaries (collectively, the "Group") set out on pages 33 to 78, which comprise the balance sheets of the Group and the Company as at 31 December 2015, 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 financial statements 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.

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 financial position of the Group and of the Company as at 31 December 2015 and the financial performance, changes in equity and cash flows of the Group and the changes in equity of the Company for the year ended on that date.

INDEPENDENT AUDITOR'S REPORT

To the Members of Smartflex Holdings Ltd.

For the financial year ended 31 December 2015

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 subsidiaries 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
23 March 2016

BALANCE SHEETS

As at 31 December 2015

		Group		Company	
		2015	2014	**2015**	2014
	Note	**US$**	US$	**US$**	US$
Non-current assets					
Property, plant and equipment	3	**10,108,408**	6,356,973	**–**	–
Investment in subsidiaries	4	**–**	–	**8,291,920**	7,197,408
Investment in joint venture	4	**–**	358,690	**–**	1,094,512
Provisional goodwill	5	**254,100**	–	**–**	–
Intellectual property	5	**4,200,000**	–	**–**	–
		14,562,508	6,715,663	**8,291,920**	8,291,920
Current assets					
Inventories	6	**2,522,933**	3,366,286	**–**	–
Trade and other receivables	7	**5,106,055**	3,143,694	**–**	–
Amount due from subsidiary		**–**	–	**–**	4,765,220
Amounts due from joint venture	8	**–**	2,069,042	**–**	–
Amounts due from related party	9	**–**	929,418	**–**	–
Prepayments		**133,318**	553,374	**4,233**	4,608
Cash and cash equivalents	10	**9,984,660**	6,559,807	**4,811,120**	11,263
		17,746,966	16,621,621	**4,815,353**	4,781,091
Total assets		**32,309,474**	23,337,284	**13,107,273**	13,073,011
Current liabilities					
Trade payables	11	**3,721,598**	1,788,690	**–**	–
Other payables and accruals	12	**1,540,815**	1,018,362	**105,464**	72,558
Amount due to subsidiary		**–**	–	**20**	–
Loans and borrowings	13	**4,475,406**	2,318,282	**–**	–
Tax payable		**53,045**	233,668	**–**	–
		9,790,864	5,359,002	**105,484**	72,558
Net current assets		**7,956,102**	11,262,619	**4,709,869**	4,708,533
Non-current liabilities					
Loans and borrowings	13	**1,286,365**	1,114,787	**–**	–
Deferred tax liabilities	14	**1,077,154**	839,709	**–**	–
Provision for reinstatement	15	**251,825**	251,825	**–**	–
		2,615,344	2,206,321	**–**	–
Total liabilities		**12,406,208**	7,565,323	**105,484**	72,558
Net assets		**19,903,266**	15,771,961	**13,001,789**	13,000,453
Share capital	16	**12,913,670**	12,913,670	**12,913,670**	12,913,670
Revenue reserves		**11,977,993**	7,846,688	**88,119**	86,783
Merger reserve	17	**(4,988,397)**	(4,988,397)	**–**	–
Total equity		**19,903,266**	15,771,961	**13,001,789**	13,000,453
Total equity and liabilities		**32,309,474**	23,337,284	**13,107,273**	13,073,011

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 2015

	Note	**2015** **US$**	2014 US$
Revenue		**27,520,865**	25,426,733
Cost of sales		**(19,655,378)**	(19,283,880)
Gross profit		**7,865,487**	6,142,853
Other income	18	**2,800,162**	473,225
Selling and distribution expenses		**(65,283)**	(76,643)
Administrative expenses		**(5,083,497)**	(4,610,784)
Finance costs	19	**(56,466)**	(42,670)
Share of results of joint venture		**(358,691)**	(359,419)
Profit before tax	20	**5,101,712**	1,526,562
Income tax credit/(expense)	21	**125,000**	(316,650)
Profit net of tax		**5,226,712**	1,209,912
Other comprehensive income for the year, net of tax		**–**	–
Total comprehensive income attributable to owners of the Company		**5,226,712**	1,209,912
Earnings per share (in US cents)			
Basic and diluted	22	**4.13**	1.20

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 2015

Group	Share capital (Note 16) US$	Revenue reserves US$	Merger reserve (Note 17) US$	Total equity US$
Opening balance at 1 January 2015	**12,913,670**	**7,846,688**	**(4,988,397)**	**15,771,961**
Profit for the year, representing total comprehensive income for the year	**–**	**5,226,712**	**–**	**5,226,712**
Contributions by and distributions to owners				
Dividends on ordinary shares (Note 27)	**–**	**(1,095,407)**	**–**	**(1,095,407)**
Total transactions with owners in their capacity as owners	**–**	**(1,095,407)**	**–**	**(1,095,407)**
Closing balance at 31 December 2015	**12,913,670**	**11,977,993**	**(4,988,397)**	**19,903,266**
Opening balance at 1 January 2014	10,236,190	7,023,291	(4,988,397)	12,271,084
Profit for the year, representing total comprehensive income for the year	–	1,209,912	–	1,209,912
Contributions by and distributions to owners				
Issuance of new ordinary shares	2,808,004	–	–	2,808,004
Share issuance expenses	(130,524)	–	–	(130,524)
Dividends on ordinary shares (Note 27)	–	(386,515)	–	(386,515)
Total transactions with owners in their capacity as owners	2,677,480	(386,515)	–	2,290,965
Closing balance at 31 December 2014	12,913,670	7,846,688	(4,988,397)	15,771,961

Company	Share capital (Note 16) US$	Revenue reserves US$	Total equity US$
Opening balance at 1 January 2015	**12,913,670**	**86,783**	**13,000,453**
Profit for the year, representing total comprehensive income for the year	**–**	**1,096,743**	**1,096,743**
Contributions by and distributions to owners			
Dividends on ordinary shares (Note 27)	**–**	**(1,095,407)**	**(1,095,407)**
Total transactions with owners in their capacity as owners	**–**	**(1,095,407)**	**(1,095,407)**
Closing balance as at 31 December 2015	**12,913,670**	**88,119**	**13,001,789**
Opening balance at 1 January 2014	10,236,190	(487,689)	9,748,501
Profit for the year, representing total comprehensive income for the year	–	960,987	960,987
Contributions by and distributions to owners			
Issuance of new ordinary shares	2,808,004	–	2,808,004
Share issuance expenses	(130,524)	–	(130,524)
Dividends on ordinary shares (Note 27)	–	(386,515)	(386,515)
Total transactions with owners in their capacity as owners	2,677,480	(386,515)	2,290,965
Closing balance at 31 December 2014	12,913,670	86,783	13,000,453

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 2015

	2015 US$	2014 US$
Cash flows from operating activities		
Profit before tax	**5,101,712**	1,526,562
Adjustments for:		
Depreciation of property, plant and equipment	**1,894,240**	1,711,699
Property, plant and equipment written off	**–**	72
Inventories written off	**–**	50,787
Gain on disposal of property, plant and equipment	**(149)**	–
Gain on investment	**(2,341,452)**	–
Interest income	**(128,015)**	(152,881)
Interest expense	**56,466**	42,670
Share of results of joint venture	**358,691**	359,419
Operating cash flows before working capital changes	**4,941,493**	3,538,328
(Increase)/decrease in trade and other receivables	**(1,910,617)**	336,881
Decrease/(increase) in prepayments	**439,406**	(457,403)
Decrease in inventories	**931,367**	232,285
Increase/(decrease) in trade and other payables	**2,168,743**	(1,649,943)
Cash generated from operations	**6,570,392**	2,000,148
Interest received	**14,602**	819
Interest paid	**(50,467)**	(40,928)
Income tax paid	**(110,873)**	(2,418)
Net cash flows generated from operating activities	**6,423,654**	1,957,621
Cash flows from investing activities		
Proceeds from disposal of property, plant and equipment	**149**	–
Purchase of property, plant and equipment	**(2,502,707)**	(1,493,979)
Loan to joint venture	**(1,073,493)**	(1,058,699)
Loan to related party	**–**	(202,110)
Acquisition of subsidiary, net of cash acquired	**205,891**	–
Net cash flows used in investing activities	**(3,370,160)**	(2,754,788)
Cash flows from financing activities		
Net proceeds from issuance of shares	**–**	2,677,480
Proceeds from loans and borrowings	**718,308**	1,809,926
Repayment of loans and borrowings	**(915,749)**	(349,058)
Net proceeds/(repayment) of trade finance facilities	**1,664,207**	(313,589)
Dividends paid	**(1,095,407)**	(386,515)
Net cash flows generated from financing activities	**371,359**	3,438,244
Net increase in cash and cash equivalents	**3,424,853**	2,641,077
Cash and cash equivalents at beginning of the year (Note 10)	**6,559,807**	3,918,730
Cash and cash equivalents at end of the year (Note 10)	**9,984,660**	6,559,807

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

NOTES TO THE FINANCIAL STATEMENTS

31 December 2015

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 is 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 subsidiaries 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 2015. 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:

Description	**Effective for annual periods beginning on or after**
Amendments to FRS 27 *Equity Method in Separate Financial Statements*	1 January 2016
Amendments to FRS 16 and FRS 38 *Clarification of Acceptable Methods of Depreciation and Amortisation*	1 January 2016
Amendments to FRS 111: *Accounting for Acquisitions of Interests in Joint Operations*	1 January 2016
Improvements to FRSs (November 2014)	
(a) Amendments to FRS 105 *Non-current Assets Held for Sale and Discontinued Operations*	1 January 2016
(b) Amendments to FRS 107 *Financial Instruments: Disclosures*	1 January 2016
(c) Amendments to FRS 19 *Employee Benefits*	1 January 2016
(d) Amendments to FRS 34 *Interim Financial Reporting*	1 January 2016

NOTES TO THE FINANCIAL STATEMENTS

31 December 2015

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

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

Description	Effective for annual periods beginning on or after
Amendments to FRS 110 and FRS 28 *Sale or Contribution of Assets between an Investor and its Associate or Joint Venture*	Date to be determined
Amendments to FRS 1 *Disclosure Initiative*	1 January 2016
Amendments to FRS 110, FRS 112 and FRS 28 *Investment Entities: Applying the Consolidation Exception*	1 January 2016
FRS 114 *Regulatory Deferral Accounts*	1 January 2016
Amendments to FRS 7: *Disclosure Initiative*	1 January 2017
Amendments to FRS 12: *Recognition of Deferred Tax Assets for Unrealised Losses*	1 January 2017
FRS 115 *Revenue from Contracts with Customers*	1 January 2018
FRS 109 *Financial Instruments*	1 January 2018

Except for FRS 115 and FRS 109, 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 FRS 115 and FRS 109 are described below.

FRS 115 Revenue from Contracts with Customers

FRS 115 establishes a five-step model that will apply to revenue arising from contracts with customers. Under FRS 115, revenue is recognised at an amount that reflects the consideration which an entity expects to be entitled in exchange for transferring goods or services to a customer. The principles in FRS 115 provide a more structured approach to measuring and recognising revenue when the promised goods and services are transferred to the customer i.e. when performance obligations are satisfied.

Key issues for the Group include identifying performance obligations, accounting for contract modifications, applying the constraint to variable consideration, evaluating significant financing components, measuring progress toward satisfaction of a performance obligation, recognising contract cost assets and addressing disclosure requirements.

Either a full or modified retrospective application is required for annual periods beginning on or after 1 January 2018 with early adoption permitted. The Group is currently assessing the impact of FRS 115 and plans to adopt the new standard on the required effective date.

FRS 109 Financial Instruments

FRS 109 introduces new requirements for classification and measurement of financial assets, impairment of financial assets and hedge accounting. Financial assets are classified according to their contractual cash flow characteristics and the business model under which they are held. The impairment requirements in FRS 109 are based on an expected credit loss model and replace the FRS 39 incurred loss model. Adopting the expected credit losses requirements will require the Group to make changes to its current systems and processes.

FRS 109 is effective for annual periods beginning on or after 1 January 2018 with early application permitted. Retrospective application is required, but comparative information is not compulsory. The Group is currently assessing the impact of FRS 109 and plans to adopt the standard on the required effective date.

NOTES TO THE FINANCIAL STATEMENTS

31 December 2015

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 7 to the financial statements.

NOTES TO THE FINANCIAL STATEMENTS

31 December 2015

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

2.4 Significant accounting estimates and judgements (cont'd)

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

(iii) Impairment of intangible assets

As disclosed in Note 5 to the financial statements, the recoverable amounts of the cash generating unit which provisional goodwill has been allocated is determined based on value in use calculations. The value in use calculations are based on a discounted cash flow models. The recoverable amount is most sensitive to the discount rate used for the discounted cash flow model as well as the expected future cash inflows and the growth rate used for extrapolation purposes. The carrying amount of the provisional goodwill as at 31 December 2015 are US$254,100 (2014: NIL).

(b) 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 2015 was US$53,045 (2014: US$233,668), and US$1,077,154 (2014: US$839,709) respectively.

2.5 Basis of consolidation and business combinations

(a) Basis of consolidation

The consolidated financial statements comprise the financial statements of the Company and its subsidiaries as at the end of the reporting period. The financial statements of the subsidiaries 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.

NOTES TO THE FINANCIAL STATEMENTS

31 December 2015

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

2.5 Basis of consolidation and business combinations (cont'd)

(b) Business combinations and goodwill

Business combinations are accounted for by applying the acquisition method. Identifiable assets acquired and liabilities assumed in a business combination are measured initially at their fair values at the acquisition date. Acquisition-related costs are recognised as expenses in the periods in which the costs are incurred and the services are received.

Any contingent consideration to be transferred by the acquirer will be recognised at fair value at the acquisition date. Subsequent changes to the fair value of the contingent consideration which is deemed to be an asset or liability, will be recognised in profit or loss.

Any excess of the sum of the fair value of the consideration transferred in the business combination, and the fair value of the Group's previously held equity interest in the acquiree (if any), over the net fair value of the acquiree's identifiable assets and liabilities is recorded as goodwill. In instances where the latter amount exceeds the former, the excess is recognised as gain on bargain purchase in profit or loss on the acquisition date.

Goodwill is initially measured at cost. Following initial recognition, goodwill is measured at cost less any accumulated impairment losses.

For the purpose of impairment testing, goodwill acquired in a business combination is, from the acquisition date, allocated to the Group's cash-generating units that are expected to benefit from the synergies of the combination, irrespective of whether other assets or liabilities of the acquiree are assigned to those units.

The cash-generating units to which goodwill have been allocated is tested for impairment annually and whenever there is an indication that the cash-generating unit may be impaired. Impairment is determined for goodwill by assessing the recoverable amount of each cash-generating unit (or group of cash-generating units) to which the goodwill relates.

In business combinations achieved in stages, previously held equity interests in the acquiree are remeasured to fair value at the acquisition date and any corresponding gain or loss is recognised in profit or loss.

NOTES TO THE FINANCIAL STATEMENTS

31 December 2015

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 subsidiaries 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 2015

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 are measured at cost less accumulated depreciation and any accumulated impairment losses.

Depreciation is computed on a straight-line basis over the estimated lives of the assets as follows:

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, 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 de-recognition of the asset is included in profit or loss in the year the asset is derecognised.

2.8 Intangible assets

Intangible assets acquired separately are measured initially at cost. Following initial acquisition, intangible assets are carried at cost less any accumulated amortisation and any accumulated impairment losses. Internally generated intangible assets, excluding capitalised development costs, are not capitalised and expenditure is reflected in profit or loss in the year in which the expenditure is incurred.

The useful lives of intangible assets are assessed as either finite or indefinite.

Intangible assets with finite useful lives are amortised over the estimated useful lives and assessed for impairment whenever there is an indication that the intangible asset may be impaired. The amortisation period and the amortisation method are reviewed at least at each financial year-end. Changes in the expected useful life or the expected pattern of consumption of future economic benefits embodied in the asset is accounted for by changing the amortisation period or method, as appropriate, and are treated as changes in accounting estimates.

NOTES TO THE FINANCIAL STATEMENTS

31 December 2015

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

2.8 Intangible assets (cont'd)

Intangible assets with indefinite useful lives or not yet available for use are tested for impairment annually, or more frequently if the events and circumstances indicate that the carrying value may be impaired either individually or at the cash-generating unit level. Such intangible assets are not amortised. The useful life of an intangible asset with an indefinite useful life is reviewed annually to determine whether the useful life assessment continues to be supportable. If not, the change in useful life from indefinite to finite is made on a prospective basis.

Gains or losses arising from de-recognition of an intangible asset are measured as the difference between the net disposal proceeds and the carrying amount of the asset and are recognised in profit or loss when the asset is derecognised.

(a) Intellectual property

The intellectual property encompasses patent rights, copyright, trademarks and all other intellectual property rights underlying the technology of the Group.

2.9 Impairment of non-financial assets

The Group assesses at each reporting date whether there is an indication that an asset may be impaired. If any 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.

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.

A previously recognised impairment loss is reversed only if there has been a change in the estimates used to determine the asset's recoverable amount since the last impairment loss was recognised. If that is the case, the carrying amount of the asset is increased to its recoverable amount. That increase cannot exceed the carrying amount that would have been determined, net of depreciation, had no impairment loss been recognised previously. Such reversal is recognised in profit or loss unless the asset is measured at revalued amount, in which case the reversal is treated as a revaluation increase.

NOTES TO THE FINANCIAL STATEMENTS

31 December 2015

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

2.10 Subsidiaries

A subsidiary is an investee that is controlled by the Group. The Group controls an investee when it is exposed, or has rights, to variable returns from its involvement with the investee and has the ability to affect those returns through its power over the investee.

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

2.11 Joint arrangements

A joint arrangement is a contractual arrangement whereby two or more parties have joint control. Joint control is the contractually agreed sharing of control of an arrangement, which exists only when decisions about the relevant activities require the unanimous consent of the parties sharing control.

A joint arrangement is classified either as joint operation or joint venture, based on the rights and obligations of the parties to the arrangement.

To the extent the joint arrangement provides the Group with rights to the assets and obligations for the liabilities relating to the arrangement, the arrangement is a joint operation. To the extent the joint arrangement provides the Group with rights to the net assets of the arrangement, the arrangement is a joint venture.

a) Joint operations

The Group recognises in relation to its interest in a joint operation,

(a) its assets, including its share of any assets held jointly;

(b) its liabilities, including its share of any liabilities incurred jointly;

(c) its revenue from the sale of its share of the output arising from the joint operation;

(d) its share of the revenue from the sale of the output by the joint operation; and

(e) its expenses, including its share of any expenses incurred jointly.

The Group accounts for the assets, liabilities, revenues and expenses relating to its interest in a joint operation in accordance with the accounting policies applicable to the particular assets, liabilities, revenues and expenses.

b) Joint ventures

The Group recognises its interest in a joint venture as an investment and accounts for the investment using the equity method. The accounting policy for investment in joint venture is set out in Note 2.12.

NOTES TO THE FINANCIAL STATEMENTS

31 December 2015

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

2.12 Joint ventures

The Group account for its investments in joint ventures using the equity method from the date on which it becomes a joint venture.

On acquisition of the investment, any excess of the cost of the investment over the Group's share of the net fair value of the investee's identifiable assets and liabilities is accounted as goodwill and is included in the carrying amount of the investment. Any excess of the Group's share of the net fair value of the investee's identifiable assets and liabilities over the cost of the investment is included as income in the determination of the entity's share of the joint venture's profit or loss in the period in which the investment is acquired.

Under the equity method, the investment in joint venture is carried in the balance sheet at cost plus post-acquisition changes in the Group's share of net assets of the joint venture. The profit or loss reflects the share of results of the operations of the joint venture. Distributions received from joint venture reduce the carrying amount of the investment. Where there has been a change recognised in other comprehensive income by the joint venture, the Group recognises its share of such changes in other comprehensive income. Unrealised gains and losses resulting from transactions between the Group and joint venture are eliminated to the extent of the interest in the joint venture.

When the Group's share of losses in a joint venture equals or exceeds its interest in the joint venture, the Group does not recognise further losses, unless it has incurred obligations or made payments on behalf of the joint venture.

After application of the equity method, the Group determines whether it is necessary to recognise an additional impairment loss on the Group's investment in joint venture. The Group determines at the end of each reporting period whether there is any objective evidence that the investment in the joint venture is impaired. If this is the case, the Group calculates the amount of impairment as the difference between the recoverable amount of the joint venture and its carrying value and recognises the amount in profit or loss.

The financial statements of the joint ventures are prepared as the same reporting date as the Company. Where necessary, adjustments are made to bring the accounting policies in line with those of the Group.

2.13 Financial instruments

a) 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.

NOTES TO THE FINANCIAL STATEMENTS

31 December 2015

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

2.13 Financial instruments (cont'd)

a) *Financial assets* (cont'd)

Subsequent measurement

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

i) *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.

De-recognition

A financial asset is derecognised where the contractual right to receive cash flows from the asset has expired. On de-recognition 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.

b) *Financial liabilities*

Initial recognition and measurement

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

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

Subsequent measurement

After initial recognition, financial liabilities that are not carried at fair value through profit or loss 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.

NOTES TO THE FINANCIAL STATEMENTS

31 December 2015

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

2.13 Financial instruments (cont'd)

b) Financial liabilities (cont'd)

De-recognition

A financial liability is de-recognised 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 de-recognition 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.

2.14 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.

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.

NOTES TO THE FINANCIAL STATEMENTS

31 December 2015

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

2.14 Impairment of financial assets (cont'd)

(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.

2.15 Cash and cash equivalents

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

2.16 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.

2.17 Provisions

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

Provisions are reviewed at the end of each reporting period and adjusted to reflect the current best estimate. If it is no longer probable that an outflow of 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.

NOTES TO THE FINANCIAL STATEMENTS

31 December 2015

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

2.18 Borrowing costs

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

2.19 Leases

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.

2.20 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 2015

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

2.21 Revenue

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.

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.

2.22 Government grants

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

Where loans or similar assistance are provided by governments or related institutions with an interest rate below the current applicable market rate, the effect of this favourable interest is regarded as additional government grant.

Government grants related to income

Government grant shall be recognised in profit or loss on a systematic basis over the periods in which the entity recognises as expenses the related costs for which the grants are intended to compensate. Grants related to income may be presented as a credit in profit or loss, either separately or under a general heading such as "Other income". Alternatively, they are deducted in reporting the related expenses.

2.23 Taxes

(a) Current income tax

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

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

NOTES TO THE FINANCIAL STATEMENTS

31 December 2015

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

2.23 Taxes (cont'd)

(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.

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.

NOTES TO THE FINANCIAL STATEMENTS

31 December 2015

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

2.23 Taxes (cont'd)

(c) Sales tax

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

- Where the sales tax incurred in a purchase of assets or services is not recoverable from the taxation authority, in which case the sales tax is recognised as part of the cost of acquisition of the asset or as part of the expense item as applicable; and

- Receivables and payables that are stated with the amount of sales tax included.

2.24 Segment reporting

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

2.25 Share capital and share issuance expenses

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

2.26 Contingencies

A contingent liability is:

(a) a possible obligation that arises from past events and whose existence will be confirmed only by the occurrence or non-occurrence of one or more uncertain future events not wholly within the control of the Group; or

(b) a present obligation that arises from past events but is not recognised because:

(i) It is not probable that an outflow of resources embodying economic benefits will be required to settle the obligation; or

(ii) The amount of the obligation cannot be measured with sufficient reliability.

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

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

NOTES TO THE FINANCIAL STATEMENTS

31 December 2015

3. Property, plant and equipment

	Computers US$	Office equipment US$	Furniture and fittings US$	Renovation US$	Plant and machinery US$	Factory equipment US$	Total US$
Group							
Cost							
At 1 January 2014	195,452	161,490	336,273	794,620	14,026,378	206,961	15,721,174
Additions	4,018	3,963	4,108	–	1,443,772	38,118	1,493,979
Written off	(2,873)	(41)	(11,392)	–	(209,415)	–	(223,721)
At 31 December 2014 and 1 January 2015	196,597	165,412	328,989	794,620	15,260,735	245,079	16,991,432
Additions	7,898	–	2,477	249,572	2,190,974	51,786	2,502,707
Acquired through business combination	3,482	–	1,305	72,563	3,334,713	39,996	3,452,059
Disposal	–	–	–	–	(504,582)	–	(504,582)
At 31 December 2015	**207,977**	**165,412**	**332,771**	**1,116,755**	**20,281,840**	**336,861**	**22,441,616**
Accumulated depreciation							
At 1 January 2014	148,638	132,133	279,700	402,693	8,068,540	114,705	9,146,409
Charge for the year	24,180	21,844	52,059	152,509	1,410,783	50,324	1,711,699
Written off	(2,873)	(41)	(11,392)	–	(209,343)	–	(223,649)
At 31 December 2014 and 1 January 2015	169,945	153,936	320,367	555,202	9,269,980	165,029	10,634,459
Charge for the year	23,197	6,989	6,475	188,482	1,616,037	53,060	1,894,240
Acquired through business combination	3,191	–	653	39,909	240,510	24,828	309,091
Disposal	–	–	–	–	(504,582)	–	(504,582)
At 31 December 2015	**196,333**	**160,925**	**327,495**	**783,593**	**10,621,945**	**242,917**	**12,333,208**
Net book value							
At 31 December 2015	**11,644**	**4,487**	**5,276**	**333,162**	**9,659,895**	**93,944**	**10,108,408**
At 31 December 2014	26,652	11,476	8,622	239,418	5,990,755	80,050	6,356,973

Assets pledged as security

The Group's plant and machinery with carrying amounts of approximately US$4,930,000 (2014: US$2,340,000) are subject to a fixed charge as security for bank facilities (Note 13).

NOTES TO THE FINANCIAL STATEMENTS

31 December 2015

4. Investments in subsidiaries and joint venture

(a) Investment in subsidiaries

	Company 2015 US$	Company 2014 US$
Equity shares, at cost	**8,291,920**	7,197,408

Name	Country of incorporation	Principal activities	Proportion (%) of ownership interest 2015	Proportion (%) of ownership interest 2014
Smartflex Technology Pte Ltd* ("Smartflex Technology)	Singapore	Assembly and testing of smart card IC modules	**100**	100
Smartflex Innovation Pte Ltd* ("Smartflex Innovation")	Singapore	Development, assembly and testing of smart card solution	**100****	–***

* Audited by Ernst & Young LLP, Singapore.
** Includes 30% held by Smartflex Technology (2014: 0%).
*** The Group held 70% ownership interest in Smartflex Innovation in 2014 and accounted for it as a joint venture.

Acquisition of a subsidiary

On 30 September 2015 (the "acquisition date"), the Group's subsidiary, Smartflex Technology, acquired an additional 30% equity interest in its 70% owned joint venture, Smartflex Innovation, a company principally involved in the manufacturing of smart cards and related products, fabrication and packaging of smart card chip modules. Upon the acquisition, Smartflex Innovation became a wholly-owned subsidiary of the Group.

The Group is of the view that it is in the commercial interest to the Group to undertake the acquisition. There is a strategic fit between the Group and Smartflex Innovation and this represents an attractive opportunity for the Group to further strengthen its market position in the industry and to enlarge the product offerings to its customers.

NOTES TO THE FINANCIAL STATEMENTS

31 December 2015

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

(a) Investment in subsidiaries (cont'd)

Acquisition of a subsidiary (cont'd)

The fair value of the identifiable assets and liabilities of Smartflex Innovation as at the acquisition date were:

	Fair value recognised on acquisition US$
Property, plant and equipment	3,142,968
Intellectual property	4,200,000
Inventories	88,014
Trade and other receivables	45,256
Prepayments	21,734
Cash and cash equivalents	205,891
	7,703,863
Trade and other payables	124,343
Loans and borrowings	861,935
Deferred tax liabilities	292,695
	1,278,973
Total identifiable net assets at fair value	6,424,890
Provisional goodwill arising from acquisition	254,100
	6,678,990
Consideration for the acquisition of Smartflex Innovation	
Loan to vendor given up, representing total consideration transferred	1,192,618
Add: Fair value of equity interest in Smartflex Innovation held by the Group immediately before the acquisition	2,341,452
Add: Settlement of pre-existing amount owing by Smartflex Innovation to the Group	3,144,920
	6,678,990

NOTES TO THE FINANCIAL STATEMENTS

31 December 2015

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

(a) Investment in subsidiaries (cont'd)

Acquisition of a subsidiary (cont'd)

	US$
Effect of the acquisition of Smartflex Innovation on cash flows	
Total consideration for 30% equity interest acquired	1,192,618
Less: non-cash consideration	(1,192,618)
Consideration settled in cash	–
Add: Cash and cash equivalents of subsidiary acquired	205,891
Net cash inflow on acquisition	205,891

Transaction costs

Transaction costs related to the acquisition of US$2,385 have been recognised in the "Administrative expenses" line item in the Group's profit or loss for the year ended 31 December 2015.

Gain on remeasuring previously held equity interest in Smartflex Innovation to fair value at acquisition date

The Group recognised a gain of US$2,341,452 as a result of measuring at fair value its 70% equity interest in Smartflex Innovation held before the business combination. The gain is included in the "Other income" line item in the Group's profit or loss for the year ended 31 December 2015.

Fair value of equity interest in Smartflex Innovation

The acquisition date fair value of the 70% equity interest in Smartflex Innovation held by the Group immediately before the acquisition date was US$2,341,452. The fair value was estimated by applying the income approach and was determined on a provisional basis.

Goodwill arising from acquisition

The goodwill arising from the acquisition comprises the value of strengthening the Group's market position in the smart card industry, enhanced operational leverage from technological innovation and cost reduction synergy expected to rise from the acquisition. None of the goodwill recognised is expected to be deductible for income tax purposes.

Impact of the acquisition on profit or loss

From the acquisition date, Smartflex Innovation has contributed US$246,942 of losses to the Group's profit for the year. If the business combination had taken place at the beginning of the year, the Group's profit net of tax would have been US$4,926,703. Smartflex Innovation did not generate any revenue in 2015.

NOTES TO THE FINANCIAL STATEMENTS

31 December 2015

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

(a) Investment in subsidiaries (cont'd)

Acquisition of a subsidiary (cont'd)

Provisional accounting of the acquisition of Smartflex Innovation

As at the date of the financial statements, the Group has not yet finalised the fair value of the equity interest in Smartflex Innovation held by the Group immediately before the acquisition and the fair value of the intellectual property acquired on acquisition. As at 31 December 2015, the fair value of the equity interest in Smartflex Innovation held by the Group immediately before the acquisition and the fair value of the intellectual property acquired amounted to US$2,341,452 and US$4,200,000 respectively and have been determined on a provisional basis. Goodwill arising from this acquisition, the carrying amount of the intellectual property, and deferred tax liability, will be adjusted accordingly on a retrospective basis when the valuations are finalised.

(b) Investment in joint venture

Name	Country of incorporation	Principal activities	Proportion (%) of ownership interest	
			2015	2014
Smartflex Innovation Pte Ltd*	Singapore	Development, assembly and testing of smart card solution	–**	70

* Audited by Ernst & Young LLP, Singapore.
** The Group holds 100% of ownership interest in Smartflex Innovation Pte Ltd in 2015 and accounts for it as a subsidiary (Note 4(a)).

	Group	
	2015 US$	2014 US$
Equity shares, at cost	–	1,094,512
Share of equity of joint venture	–	(735,822)
	–	358,690

As at 31 December 2014, the Group jointly controlled the venture with another partner, and under the contractual agreement required unanimous consent for all major decisions over the relevant activities.

NOTES TO THE FINANCIAL STATEMENTS

31 December 2015

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

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

Summarised financial information in respect of Smartflex Innovation Pte Ltd. based on its FRS financial statements, and reconciliation with the carrying amount of the investment in the consolidated financial statements are as follows:

Summarised balance sheet	**Group** 2014 US$
Cash and cash equivalents	211,267
Trade receivables and other receivables	251,542
Prepaid operating expenses	27,389
Inventories	90,738
Current assets	580,936
Non-current assets	5,320,621
Total assets	5,901,557
Current liabilities	2,932,893
Non-current liabilities	2,456,250
Total liabilities	5,389,143
Net assets	512,414
Proportion of the Group's ownership	70%
Carrying amount of the investment	358,690

Summarised statement of comprehensive income	**Group** 2014 US$
Revenue	6,064
Cost of sales	(63,894)
Gross loss	(57,830)
Other income	19,363
Operating expenses	(341,811)
Finance costs	(112,416)
Other expense	(20,750)
Loss before tax	(513,444)
Income tax expense	(11)
Loss after tax	(513,455)
Total comprehensive income	(513,455)

NOTES TO THE FINANCIAL STATEMENTS

31 December 2015

5. Intangible assets

	Group	
	Provisional goodwill US$	**Intellectual property US$**
Cost:		
At 1 January 2015	–	–
Addition:		
– Acquisition of a subsidiary (Note 4(a))	254,100	4,200,000
At 31 December 2015	254,100	4,200,000
Accumulated amortisation and impairment:		
At 1 January 2015 and 31 December 2015	–	–
Net carrying amount:		
At 31 December 2015	254,100	4,200,000
At 31 December 2014	–	–

Provisional goodwill

Provisional goodwill represents the excess of purchase consideration over the fair value of the net identifiable of Smartflex Innovation acquired. Under FRS 103 Business Combinations, the Group has up to 1 year (from date of acquisition, i.e. 30 September 2015) to adjust the provisional amount recognised for the acquisition of Smartflex Innovation.

Impairment testing of goodwill

The Group has performed an impairment review of the carrying amount of the provisional goodwill in December 2015.

For the purpose of the impairment testing, the goodwill acquired has been allocated to one cash-generating unit, which is Smartflex Innovation. The goodwill is reviewed for impairment based on forecast operating performance and cash flows. Cash flow projections are based on budgets/forecasts for the next 15 years prepared on the basis of assumptions reflective of the prevailing market conditions, and are discounted appropriately. The value-in-use calculations are most sensitive to the following key assumptions:

	2015 %
Average growth rate	**13**
Terminal value growth rate *	**–**
Pre-tax discount rate	**21**

* Growth rate used to extrapolate cash flows beyond the forecasted period.

NOTES TO THE FINANCIAL STATEMENTS

31 December 2015

5. Intangible assets (cont'd)

Impairment testing of goodwill (cont'd)

Management determined budgeted gross margin based on its expectations of market development. The discount rate used reflects business specific risks relating to the relevant industry, business life-cycle and geographical location.

Sensitivity to changes in assumptions

Management believes that no reasonably possible changes in any of the key assumptions would cause the carrying value of the unit to materially exceed its recoverable amount.

6. Inventories

	Group	
	2015	2014
	US$	US$
Balance sheet:		
At cost:		
Raw materials	**2,016,651**	2,892,811
Consumables	**310,489**	326,648
Finished goods	**105,828**	63,365
Work-in-progress	**89,965**	83,462
	2,522,933	3,366,286
Statement of comprehensive income:		
Inventories recognised as an expense in cost of sales	**(14,689,653)**	(14,784,313)
Inventories written off	**–**	(50,787)

7. Trade and other receivables

	Group	
	2015	2014
	US$	US$
Trade receivables	**5,028,981**	3,063,251
Deposits	**77,074**	77,074
Other receivables	**–**	3,369
Total trade and other receivables	**5,106,055**	3,143,694
Add: Amounts due from joint venture (Note 8)	**–**	2,069,042
Add: Amounts due from related party (Note 9)	**–**	929,418
Add: Cash and cash equivalents (Note 10)	**9,984,660**	6,559,807
Total loans and receivables	**15,090,715**	12,701,961

NOTES TO THE FINANCIAL STATEMENTS

31 December 2015

7. Trade and other receivables (cont'd)

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

	Group	
	2015	2014
	US$	US$
Singapore Dollar	**7,305**	672

Trade receivables

Trade receivables are non-interest bearing and are generally on 30 to 90 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$1,122,121 (2014: US$502,723) that are past due date at the end of the reporting period but not impaired. These receivables are unsecured and the analysis of their ageing at the end of the reporting period is as follows:

	Group	
	2015	2014
	US$	US$
Trade receivables past due:		
Less than 30 days	**951,886**	494,333
30 to 60 days	**169,032**	614
More than 60 days	**1,203**	7,776
	1,122,121	502,723

Receivables that are impaired

The Group does not have any receivables that are impaired as at 31 December 2015 and 2014.

8. Amounts due from joint venture

As at 31 December 2014, amounts due from joint venture were 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 was no fixed term of repayment.

9. Amounts due from related party

As at 31 December 2014, these amounts due from a shareholder of the joint venture, were 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 was no fixed term of repayment.

NOTES TO THE FINANCIAL STATEMENTS

31 December 2015

10. Cash and cash equivalents

For the purpose of the consolidated cash flow statement, cash and cash equivalents comprise the following at the end of the reporting period:

	Group		Company	
	2015	2014	**2015**	2014
	US$	US$	**US$**	US$
Cash at banks and in hand	**9,984,660**	5,046,011	**4,811,120**	11,263
Fixed deposits with banks	**–**	1,513,796	**–**	–
	9,984,660	6,559,807	**4,811,120**	11,263

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

	Group		Company	
	2015	2014	**2015**	2014
	US$	US$	**US$**	US$
Singapore Dollar	**5,146,155**	1,999,383	**4,811,120**	11,263
Euro	**1,003,867**	39,266	**–**	–

11. Trade payables and borrowings

	Group	
	2015	2014
	US$	US$
Trade payables	**3,721,598**	1,788,690
Other payables and accruals (Note 12)	**1,540,815**	1,018,362
Loans and borrowings (Note 13)	**5,761,771**	3,433,069
Total financial liabilities carried at amortised cost	**11,024,184**	6,240,121

Trade payables are non-interest bearing and are normally settled on 30 to 60 days' terms.

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

	Group	
	2015	2014
	US$	US$
Singapore Dollar	**229,133**	124,665
Euro	**1,894,739**	491,962

NOTES TO THE FINANCIAL STATEMENTS

31 December 2015

12. Other payables and accruals

	Group		Company	
	2015	2014	**2015**	2014
	US$	US$	**US$**	US$
Accruals	**1,486,183**	920,199	**105,464**	72,558
Deposits received and other payables	**54,632**	98,163	**–**	–
	1,540,815	1,018,362	**105,464**	72,558

Other payables are non-interest bearing and a normally settled on 30 to 60 days' terms.

13. Loans and borrowings

	Maturity	Group	
		2015	2014
		US$	US$
Bank loans (current):			
– Euro loans	2016	**304,134**	338,205
– USD loans	On demand/2016	**872,730**	345,743
– USD trade finance facilities	2016	**1,830,189**	1,047,119
– Euro trade finance facilities	2016	**1,468,353**	587,215
		4,475,406	2,318,282
Bank loans (non-current):			
– Euro loans	2018	**506,891**	901,880
– USD loan	2017/2018/2020	**779,474**	212,907
		1,286,365	1,114,787

The loans are secured by a fixed charge over the plant and machinery.

The loans and trade finance facilities, which are at floating rates, bear interests ranging from 1.16% to 1.94% (2014: 1.16% to 1.75%) and 1% to 1.42% (2014: 1.04% to 1.52%) per annum respectively.

In addition to the basic loan terms and specific clauses defining default events, the USD loans include a loan amounting to US$339,563 (2014: US$265,903) that has an overriding repayment on demand clause for a loan 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 Group has classified the bank loan to current liabilities.

14. Deferred tax liabilities

	Group	
	2015	2014
	US$	US$
Deferred tax liabilities can be analysed as follows:		
Differences in depreciation for tax purposes	**831,474**	870,436
Fair value adjustment on acquisition of a subsidiary	**292,695**	–
Others	**(47,015)**	(30,727)
	1,077,154	839,709

There are no income tax consequences (2014: Nil) attached to the dividends to the shareholders proposed by the Company but not recognised as a liability in the financial statements (Note 27).

NOTES TO THE FINANCIAL STATEMENTS

31 December 2015

14. Deferred tax liabilities (cont'd)

Unrecognised tax losses and capital allowances

At the end of the reporting period, the Group has tax losses of approximately US$1,518,115 (2014: US$957,986) and capital allowances of approximately US$758,589 (US$379,163) that are available for offset against future taxable profits of the company in which the losses arose, for which no deferred tax asset is recognised due to uncertainty of its recoverability. The use of these tax losses is subject to the agreement of the Comptroller of Income Tax and compliance with Singapore Income Tax Act. The tax losses have no expiry date.

15. Provision for reinstatement

	Group	
	2015	2014
	US$	US$
At 1 January and 31 December	**251,825**	251,825

Provision for reinstatement refers to the estimated cost of dismantling, removing and restoring the rented property at the end of the lease term.

16. Share capital

	Group and Company			
	2015	**2015**	2014	2014
	No. of shares		No. of shares	
	'000	**US$**	'000	US$
At 1 January	**126,440**	**12,913,670**	96,440	10,236,190
Issuance of new ordinary shares	**–**	**–**	30,000	2,808,004
Share issuance expense	**–**	**–**	–	(130,524)
At 31 December	**126,440**	**12,913,670**	126,440	12,913,670

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.

17. 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.

NOTES TO THE FINANCIAL STATEMENTS

31 December 2015

18. Other income

	Group	
	2015	2014
	US$	US$
Interest income from:		
– joint venture	**100,213**	86,037
– related party	**13,200**	64,473
– banks	**14,602**	2,371
Foreign exchange gain	**186,683**	249,939
Gain on disposal of property, plant and equipment	**149**	–
Gain on investment (Note 4(a))	**2,341,452**	–
Government grants	**71,446**	36,434
Management income from joint venture	**57,750**	–
Rental income from joint venture	**–**	26,068
Others	**14,667**	7,903
	2,800,162	473,225

19. Finance costs

	Group	
	2015	2014
	US$	US$
Interest expense on:		
– trade finance facilities	**29,711**	28,521
– term loans	**26,755**	14,133
– bank overdraft	**–**	16
	56,466	42,670

20. Profit before tax

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

	Group	
	2015	2014
	US$	US$
Audit fees:		
– Auditors of the Company	**50,519**	37,459
– Overprovision of audit fees in prior year	**(7,393)**	(11,313)
Non-audit fees:		
– Auditors of the Company	**11,587**	14,751
Total audit and non-audit fees	**54,713**	40,897
Depreciation of property, plant and equipment	**1,894,240**	1,711,699
Gain on property, plant and equipment	**149**	–
Property, plant and equipment written off	**–**	72
Inventories recognised as an expense in cost of sales (Note 6)	**14,689,653**	14,784,313
Inventories written off (Note 6)	**–**	50,787
Rental expense – operating lease	**478,437**	496,790
Foreign exchange gain	**(186,683)**	(249,939)
Personnel and related costs:		
– salaries and bonuses	**5,397,048**	4,670,233
– directors' fees	**78,582**	62,407
– employer's contributions to Central Provident Fund	**348,341**	364,945

NOTES TO THE FINANCIAL STATEMENTS

31 December 2015

21. Income tax (credit)/expense

(a) Major components of income tax (credit)/expense

The major components of income tax (credit)/expense for the years ended 31 December are:

	Group	
	2015	2014
	US$	US$
Current income tax:		
Current income taxation	**33,733**	175,758
(Over)/under provision in respect of previous year	**(103,483)**	60,328
	(69,750)	236,086
Deferred income tax:		
Origination and reversal of temporary differences	**(173,285)**	80,944
Under/(over) provision of deferred tax liabilities in respect of previous years	**118,035**	(380)
	(55,250)	80,564
Income tax (credit)/expense recognised in the statement of comprehensive income	**(125,000)**	316,650

(b) Relationship between tax (credit)/expense and accounting profit

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

	Group	
	2015	2014
	US$	US$
Accounting profit before income tax	**5,101,712**	1,526,562
Tax on profit before tax at 17% (2014: 17%)	**867,291**	259,516
Income not subject to tax	**(453,207)**	(32,954)
Non-deductible expenses	**62,846**	16,322
Deferred tax assets not recognised	**28,596**	–
Effect of partial tax exemption and tax rebate	**(35,133)**	(44,055)
Tax benefits from Productivity and Innovation Credit	**(569,112)**	(10,251)
Share of results of joint venture	**60,978**	61,101
Under provision in respect of previous years	**14,552**	59,948
Unutilised capital allowances	**(103,684)**	–
Others	**1,873**	7,023
Tax (credit)/expense	**(125,000)**	316,650

NOTES TO THE FINANCIAL STATEMENTS

31 December 2015

22. Earnings per share

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

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

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

	Group	
	2015	2014
	US$	US$
Profit net of tax attributable to shareholders	**5,226,712**	1,209,912

	Number of shares '000	**Number of shares '000**
Weighted average number of ordinary shares for basic and diluted earnings per share computation	126,440	100,550

23. 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

(a) Revenue

Revenue based on geographical locations of customers for the years ended 31 December 2015 and 2014 are as follows:

	Group			
	2015		2014	
	US$'000	**%**	US$'000	%
Europe	**6,337**	**23**	7,252	29
East Asia	**4,362**	**16**	3,937	15
South Asia*	**16,451**	**60**	13,901	55
Others	**371**	**1**	337	1
Total	**27,521**	**100**	25,427	100

* This includes revenue from Singapore of US$13,567,745 (2014: US$13,326,274).

Revenue from top ten customers of the Group's single segment represent approximately 92.0% (2014: 93.0%) of the Group's total revenues. These customers are located in East Asia, South Asia and Europe.

NOTES TO THE FINANCIAL STATEMENTS

31 December 2015

23. Segment information (cont'd)

Geographical information (cont'd)

(b) Non-current assets

As at 31 December 2015, non-current assets of US$14,562,508 which consist of property, plant and equipment, provisional goodwill and intellectual property, are located in Singapore.

As at 31 December 2014, non-current assets of US$6,715,663 which consist of property, plant and equipment and investment in joint venture, are located in Singapore.

Information about major customers

The Group derives revenue from 3 (2014: 5) major customers as follows:

	2015 US$'000	2014 US$'000
Customer A	**3,922**	2,975
Customer B	**4,170**	3,334
Customer C	**7,781**	5,238
Customer D	**54***	2,556
Customer E	**1,733***	4,433

* These figures have been shown for comparative purposes.

24. Related party transactions

	Group	
	2015 US$	2014 US$
(a) Sales and purchases of goods and services		
With joint venture:		
Purchases	**–**	6,064
Interest income	**100,213**	86,037
Management income	**57,750**	–
Rental income	**–**	26,068
Utilities charges	**14,368**	2,932
With related party:		
Interest income	**13,200**	64,472

NOTES TO THE FINANCIAL STATEMENTS

31 December 2015

24. Related party transactions (cont'd)

	Group	
	2015	2014
	US$	US$
(b) Compensation of key management personnel		
Short-term employee benefits	**1,506,435**	1,143,922
Central Provident Fund contributions	**76,076**	68,736
	1,582,511	1,212,658
Comprise amounts paid to:		
Directors of the Company	**798,579**	488,521

25. Commitments

Operating lease commitments

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

	Group	
	2015	2014
	US$	US$
Not later than 1 year	**492,502**	498,387
Later than 1 year but not later than 5 years	**319,142**	868,322
	811,644	1,366,709

Minimum lease payments recognised as an expense in profit or loss for the financial year ended 31 December 2015 amounted to US$480,811 (2014: US$485,858).

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.

26. Contingent liabilities

	Group	
	2015	2014
	US$	US$
Corporate guarantees given to a joint venture	**–**	1,259,402

As at 31 December 2014, the Group had guaranteed its interest in Smartflex Innovation's loan of US$1,259,402.

NOTES TO THE FINANCIAL STATEMENTS

31 December 2015

27. Dividends

	Group and Company	
	2015	2014
	US$	US$
Declared and paid during the financial year		
Final exempt (one-tier) dividend for 2014 of S$0.0035 cents (2013: NIL cents) per ordinary share	**334,662**	–
First interim exempt (one-tier) dividend for 2015 of S$0.0085 (2014: S$0.005) per ordinary share	**760,745**	386,515
Proposed but not recognised as a liability as at 31 December:		
Dividends on ordinary shares, subject to shareholders approval at the AGM		
Final exempt (one-tier) dividend for 2015 of S$0.0085 (2014: S$0.0035) per ordinary share	**760,373**	334,662

28. 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 2015, 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.

(a) 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.

NOTES TO THE FINANCIAL STATEMENTS

31 December 2015

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

(a) Foreign currency risk (cont'd)

Sensitivity analysis for foreign currency risk

The following table demonstrates the sensitivity of 1% (2014: 1%) change in SGD and EUR, with all other variables held constant, on the Group's profit after tax.

		Group	
		2015	2014
		US$	US$
		Increase/(Decrease) in profit after tax	
Against USD			
SGD	Strengthened	**28,261**	13,709
	Weakened	**(28,261)**	(13,709)
EUR	Strengthened	**(25,545)**	(18,415)
	Weakened	**25,545**	18,415

(b) Credit risk

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

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

NOTES TO THE FINANCIAL STATEMENTS

31 December 2015

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

(b) Credit risk (cont'd)

Credit risk concentration profile

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

	2015		2014	
	US$	**% of total**	US$	% of total
By geographical segments:				
South Asia	**2,464,715**	**49**	1,511,176	49
East Asia	**1,690,992**	**34**	448,592	15
Europe	**872,071**	**17**	1,078,681	35
Others	**1,203**	**0[(i)]**	24,802	1
Total	**5,028,981**	**100**	3,063,251	100

(i) "Others" constitutes 0.02% as a percentage of total trade receivables.

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 7.

(c) 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.

NOTES TO THE FINANCIAL STATEMENTS

31 December 2015

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

(c) Interest rate risk (cont'd)

Sensitivity analysis for interest rate risk

The following table demonstrates the sensitivity of interest rates by 100 (2014: 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.

	2015	2014
	US$	US$
	(Decrease)/Increase in profit after tax	
Increase by 100 basis points	**(36,979)**	(3,239)
Decrease by 100 basis points	**36,979**	3,239

(d) 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, 77.7% (2014: 67.5%) of the Group's loans and borrowings (Note 13) will mature in less than one year based on the carrying amount reflected in the financial statements.

NOTES TO THE FINANCIAL STATEMENTS

31 December 2015

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

(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$
Group				
2015				
Financial assets:				
Trade and other receivables	**5,106,055**	**–**	**–**	**5,106,055**
Cash and cash equivalents	**9,984,660**	**–**	**–**	**9,984,660**
Total undiscounted financial assets	**15,090,715**	**–**	**–**	**15,090,715**
Financial liabilities:				
Trade payables	**3,721,598**	**–**	**–**	**3,721,598**
Other payables and accruals	**1,540,815**	**–**	**–**	**1,540,815**
Loans and borrowings	**4,493,705**	**1,306,398**	**–**	**5,800,103**
Total undiscounted financial liabilities	**9,756,118**	**1,306,398**	**–**	**11,062,516**
Total net undiscounted financial assets/(liabilities)	**5,334,597**	**(1,306,398)**	**–**	**4,028,199**
2014				
Financial assets:				
Trade and other receivables	3,143,694	–	–	3,143,694
Amounts due from joint venture	2,069,042	–	–	2,069,042
Amounts due from related party	929,418	–	–	929,418
Cash and cash equivalents	6,559,807	–	–	6,559,807
Total undiscounted financial assets	12,701,961	–	–	12,701,961
Financial liabilities:				
Trade payables	1,788,690	–	–	1,788,690
Other payables and accruals	1,018,362	–	–	1,018,362
Loans and borrowings	2,328,147	1,127,931	–	3,456,078
Total undiscounted financial liabilities	5,135,199	1,127,931	–	6,263,130
Total net undiscounted financial assets/(liabilities)	7,566,762	(1,127,931)	–	6,438,831

NOTES TO THE FINANCIAL STATEMENTS

31 December 2015

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

(d) Liquidity risk (cont'd)

Analysis of financial instruments by remaining contractual maturities (cont'd)

	One year or less US$	One to five years US$	Over five years US$	Total US$
Company				
2015				
Financial assets:				
Cash and cash equivalents	**4,811,120**	**–**	**–**	**4,811,120**
Total undiscounted financial assets	**4,811,120**	**–**	**–**	**4,811,120**
Financial liabilities:				
Other payables and accruals	**105,464**	**–**	**–**	**105,464**
Amount due to subsidiary	**20**			**20**
Total undiscounted financial liabilities	**105,484**	**–**	**–**	**105,484**
Total net undiscounted financial assets	**4,705,636**	**–**	**–**	**4,705,636**
2014				
Financial assets:				
Cash and cash equivalents	11,263	–	–	11,263
Amount due from subsidiary	4,765,220	–	–	4,765,220
Total undiscounted financial assets	4,776,483	–	–	4,776,483
Financial liabilities:				
Other payables and accruals	72,558	–	–	72,558
Total undiscounted financial liabilities	72,558	–	–	72,558
Total net undiscounted financial assets	4,703,925	–	–	4,703,925

NOTES TO THE FINANCIAL STATEMENTS

31 December 2015

29. Fair value of assets and liabilities

(a) Fair value hierarchy

The Group categories fair value measurements using a fair value hierarchy that is dependent on the valuation inputs used as follows:

- Level 1 – Quoted prices (unadjusted) in active market for identical assets or liabilities that the Group can access at the measurement date;
- Level 2 – Inputs other than quoted prices included within Level 1 that are observable for the asset or liability, either directly or indirectly; and
- Level 3 – Unobservable inputs for the asset or liability.

Fair value measurements that use inputs of different hierarchy levels are categorised in its entirety in the same level of the fair value hierarchy as the lowest level input that is significant to the entire measurement.

(b) Fair value of financial instruments by classes that are not carried at fair value and whose carrying amounts are reasonable approximation of fair value

Trade and other receivables (Note 7), cash and bank balances (Note 10), trade payables (Note 11), other payables and accruals (Note 12), current loans and borrowings and non-current loans and borrowings at floating rates (Note 13).

The carrying amounts of these financial assets and liabilities are reasonable approximation of fair values due to their short-term nature.

30. 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 2015 and 31 December 2014.

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 certain subsidiary company to have a gearing ratio not exceeding 150% (2014: 150%) and net worth not less than SGD4,500,000 (2014: SGD4,500,000). The Group includes within net debt, loans and borrowings less cash and cash equivalents. Capital includes equity attributable to the equity holders of the Company.

NOTES TO THE FINANCIAL STATEMENTS

31 December 2015

30. Capital management (cont'd)

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

	Group	
	2015	2014
	US$	US$
Total gross debt:		
Loans and borrowings	**5,761,771**	3,433,069
Shareholders' funds:		
Share capital	**12,913,670**	12,913,670
Revenue reserves	**11,977,993**	7,846,688
Merger reserve	**(4,988,397)**	(4,988,397)
	19,903,266	15,771,961
Gross debt equity ratio	**0.29**	0.22
Cash and cash equivalents	**9,984,660**	6,559,807
Less: Total gross debt	**(5,761,771)**	(3,433,069)
Net cash position	**4,222,889**	3,126,738

31. Events occurring after the reporting period

On 29 January 2016, the Company has entered into a non-binding term sheet with Novo Tellus PE Fund 1, L.P. and/or its affiliates in respect of the disposal of the entire issued share capital of Smartflex Technology and Smartflex Innovation held by the Company, for a consideration of up to S$26,080,000, subject to the entry into a sale and purchase agreement.

32. Authorisation of financial statements

The audited financial statements as at and for the financial year ended 31 December 2015 were authorised for issue in accordance with a resolution of directors on 23 March 2016.

SHAREHOLDINGS STATISTICS

As at 14 March 2016

Number of Shares	:	126,440,002#
Class of Shares	:	Ordinary Shares
Voting Rights	:	One vote per share

The Company does not have any treasury shares.

SUBSTANTIAL SHAREHOLDERS

(As recorded in the Register of Substantial Shareholders as at 14 March 2016)

	No. of Shares			
Name of Substantial Shareholder	**Direct Interest**	**%**	**Deemed Interest**	**%**
Tan Gee Beng Private Limited	57,139,331	45.19	–	–
Tan Tong Guan	565,001	0.45	57,139,331**	45.19
Tan Geok Moey	–	–	57,139,331**	45.19
Tan Yoke Hong	–	–	57,139,331**	45.19
Tan Ah Chew	8,845,000	7.00	290,000*	0.23
Goh Hun Keng	5,567,093	4.40	5,168,178***	4.09
Ho Yuet Hoe Jenny @ Ho Yuet Heng	5,168,178	4.09	5,567,093***	4.40

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").

*** Mr. Goh Hun Keng is deemed to have an interest in the shares held by his spouse Ms Ho Yuet Hoe Jenny @ Ho Yuet Heng, and vice versa.

SHAREHOLDINGS IN THE HANDS OF PUBLIC

Based on information available to the Company as at 14 March 2016, approximately 35.89% 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 2016

DISTRIBUTION OF SHAREHOLDINGS

Size of Holdings	No. of Shares	% of Shares	No. of Shareholders	% of Shareholders
1 – 99	0	0.00	0	0.00
100 – 1,000	131,927	0.10	135	38.13
1,001 – 10,000	627,900	0.50	103	29.10
10,001 – 1,000,000	18,840,572	14.90	107	30.23
1,000,001 and Above	106,839,603	84.50	9	2.54
Grand Total	**126,440,002**	**100.00**	**354**	**100.00**

TWENTY LARGEST SHAREHOLDERS

No.	Name	No. of Shares	%
1	TAN GEE BENG PRIVATE LTD	57,139,331	45.19
2	RAFFLES NOMINEES (PTE) LTD	11,744,771	9.29
3	UOB KAY HIAN PTE LTD	11,551,200	9.14
4	TAN AH CHEW	8,845,000	7.00
5	KGI FRASER SECURITIES PTE LTD	6,648,300	5.26
6	NG ENG SENG	3,480,001	2.75
7	RHB SECURITIES SINGAPORE PTE LTD	2,940,000	2.33
8	LOW SEE CHING (LIU SHIJIN)	2,500,000	1.98
9	TAN BOON KIAT VINCENT (CHEN WENJIE VINCENT)	1,991,000	1.57
10	TAN WAN LING (CHEN WANREN)	1,000,000	0.79
11	TAN HOW KIAT JASON	873,300	0.69
12	HONG LEONG FINANCE NOMINEES PTE LTD	847,000	0.67
13	LIM BAN THOON	780,000	0.62
14	ANG AH NUI	772,000	0.61
15	JUSTINA ONG	750,000	0.59
16	LI HUNG	750,000	0.59
17	LOW EE HWEE	750,000	0.59
18	CIMB SECURITIES (SINGAPORE) PTE LTD	725,000	0.57
19	TAN HIOK JU JULIA	700,000	0.55
20	MAYBANK NOMINEES (SINGAPORE) PTE LTD	674,000	0.53
	TOTAL	**115,460,903**	**91.31**

NOTICE OF ANNUAL GENERAL MEETING

NOTICE IS HEREBY GIVEN that the Annual General Meeting of SMARTFLEX HOLDINGS LTD. (the "Company") will be held at 11 Eunos Road 8, Lifelong Learning Institute (Event Hall 2-1), Singapore 408601, on Thursday, 28 April 2016 at 3.30 p.m. for the following purposes:

AS ORDINARY BUSINESS

1. To receive and adopt the Directors' Statement and the Audited Financial Statements of the Company and the Group for the financial year ended 31 December 2015 together with the Independent Auditors' Report thereon. **(Resolution 1)**

2. To declare final dividend of 0.85 Singapore cents per share tax-exempt (one-tier) for the financial year ended 31 December 2015. (2014: 0.35 Singapore cents) **(Resolution 2)**

3. To re-elect Ms Tan Geok Moey, a Director who is retiring pursuant to Regulation 91 of the Constitution of the Company.

   [See Explanatory Note (i)] **(Resolution 3)**

4. To re-elect Mr Chan Kum Kit, a Director who is retiring pursuant to Regulation 91 of the Constitution of the Company.

   [See Explanatory Note (ii)] **(Resolution 4)**

5. To re-elect Mr Goh Hun Keng, a Director who is retiring pursuant to Regulation 97 of the Constitution of the Company.

   [See Explanatory Note (iii)] **(Resolution 5)**

6. To approve the payment of Directors' fees of S$111,070 for the financial year ended 31 December 2015. (2014: S$82,000) **(Resolution 6)**

7. To re-appoint Messrs Ernst & Young LLP, Public Accountants and Chartered Accountants, as the Auditors of the Company and to authorise the Directors of the Company to fix their remuneration. **(Resolution 7)**

8. 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:

9. 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 Catalist 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 orotherwise; 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,

provided that:

(1) the aggregate number of shares (including shares to be issued pursuant of the Instruments made or granted pursuant to this Resolution) 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 to be issued other than on a *pro-rata* basis to 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 that may be issued under sub-paragraph (1) above, the total number of issued shares (excluding treasury shares) shall be based on the total number of issued shares (excluding treasury shares) in the capital of the Company at the time of the passing of this Resolution, after adjusting for:

(a) new shares arising from the conversion or exercise of any convertible securities;

(b) new shares arising from exercising share options or vesting of share awards which are 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 authority 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 Constitution of the Company; and

(4) unless revoked or varied by the Company in a general meeting, such authority 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 (iv)] **(Resolution 8)**

By Order of the Board

Wong Chuen Shya (Huang Chunxia)
Company Secretary
Singapore, 12 April 2016

Explanatory Notes:

(i) Ms Tan Geok Moey will upon re-election as a Director of the Company remain as a member of the Nominating Committee and Audit Committee and will be considered non-independent.

(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. Mr Chan Kum Kit is considered independent pursuant to Rule 704(7) of the Listing Manual – Section B: Rules of Catalist of the SGX-ST.

(iii) Mr Goh Hun Keng will upon re-election as a Director of the Company remain as Chairman of the Nominating Committee and a member of the Remuneration Committee. Mr Goh Hun Keng is considered independent pursuant to Rule 704(7) of the Listing Manual – Section B: Rules of Catalist of the SGX-ST.

(iv) Ordinary Resolution 8 in item 9 above, if passed, will empower the Directors of the Company, effective until the conclusion 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 shareholders.

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 any convertible securities, or share options or vesting of share awards which are outstanding or subsisting at the time when this Ordinary Resolution is passed and any subsequent bonus issue, consolidation or subdivision of shares.

Notes:

1. A Member of the Company (other than a Relevant Intermediary*) entitled to attend and vote at the AGM is entitled to appoint more than two proxies to attend and vote in his/her stead. A proxy need not be a Member of the Company.
2. A Relevant Intermediary may appoint more than two proxies, but each proxy must be appointed to exercise the rights attached to a different share or shares held by him (which number and class of shares shall be specified).
3. 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 less than forty-eight (48) hours before the time appointed for holding the AGM.
4. 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 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.

NOTICE OF ANNUAL GENERAL MEETING

* A Relevant Intermediary is:

(a) a banking corporation licensed under the Banking Act (Cap. 19) or a wholly-owned subsidiary of such a banking corporation, whose business includes the provision of nominee services and who holds shares in that capacity; or

(b) a person holding a capital markets services licence to provide custodial services for securities under the Securities and Futures Act (Cap. 289) and who holds shares in that capacity; or

(c) the Central Provident Fund Board established by the Central Provident Fund Act (Cap. 36), in respect of shares purchased under the subsidiary legislation made under that Act providing for the making of investments from the contributions and interest standing to the credit of members of the Central Provident Fund, if the Board holds those shares in the capacity of an intermediary pursuant to or in accordance with that subsidiary legislation.

NOTICE OF BOOKS CLOSURE

NOTICE IS HEREBY GIVEN that the Share Transfer Books and Register of Members of SMARTFLEX HOLDINGS LTD. (the "Company") will be closed on 5 May 2016 for the purpose of determining the entitlements of the Company's shareholders ("Shareholders") to a final dividend of S$0.0085 per ordinary share tax exempt (one-tier).

For the avoidance of doubt, in the case where the registered Shareholder is the Central Depository (Pte) Limited ("CDP") the dividend warrants shall be issued to the CDP and credited to the depositors' securities accounts with the CDP in proportion to the number of shares of the Company standing to the credit of each depositor's securities account with the CDP as at 5.00 p.m. (Singapore time) on 5 May 2016.

Duly completed registrable transfers received by the Company's Share Registrar, Boardroom Corporate & Advisory Services Pte Ltd, 50 Raffles Place, #32-01 Singapore Land Tower, Singapore 048623 up to 5.00 p.m. on 5 May 2016 will be registered to determine entitlements to the said dividend.

Payment of the dividend, if approved by the members at the Annual General Meeting to be held on 28 April 2016, will be made on 19 May 2016.

PERSONAL DATA PRIVACY

By submitting an instrument appointing a proxy(ies) and/or representative(s) to attend, speak and vote at the AGM and/or any adjournment thereof, a member of the Company (i) consents to the collection, use and disclosure of the member's personal data by the Company (or its agents or service providers) for the purpose of the processing and administration and analysis by the Company (or its agents or service providers) of proxies and representatives appointed for the AGM (including any adjournment thereof) and the preparation and compilation of the attendance lists, minutes and other documents relating to the AGM (including any adjournment thereof), and in order for the Company (or its agents or service providers) to comply with any applicable laws, listing rules, regulations and/or guidelines (collectively, the "Purposes"), (ii) warrants that where the member discloses the personal data of the member's proxy(ies) and/or representative(s) to the Company (or its agents or service providers), the member has obtained the prior consent of such proxy(ies) and/or representative(s) for the collection, use and disclosure by the Company (or its agents or service providers) of the personal data of such proxy(ies) and/or representative(s) for the Purposes, and (iii) agrees that the member will indemnify the Company in respect of any penalties, liabilities, claims, demands, losses and damages as a result of the member's breach of warranty.

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 An investor who holds shares under the Central Provident Fund Investment Scheme ("CPF Investor") and/or the Supplementary Retirement Scheme ("SRS Investors") (as may be applicable) may attend and cast his vote(s) at the Meeting in person. CPF and SRS Investors who are unable to attend the Meeting but would like to vote, may inform their CPF and/or SRS Approved Nominees to appoint the Chairman of the Meeting to act as their proxy, in which case, the CPF and SRS Investors shall be precluded from attending the Meeting.

2. This Proxy Form is not valid for use by CPF and SRS Investors and shall be ineffective for all intents and purposes if used or purported to be used by them.

I/We, ________________________________ (Name) ________________ (NRIC/Passport No.)

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			

as my/our proxy/proxies to attend and vote for me/us on my/our behalf at the Annual General Meeting (the "Meeting") of the Company to be held on Thursday, 28 April 2016 at 3.30 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.

No.	Resolutions relating to:	No. of votes 'For'*	No. of votes 'Against'*
1	Directors' Statement and Audited Financial Statements for the financial year ended 31 December 2015		
2	Payment of proposed final dividend of S$0.0085 per ordinary share		
3	Re-election of Ms Tan Geok Moey as a Director		
4	Re-election of Mr Chan Kum Kit as a Director		
5	Re-election of Mr Goh Hun Keng as a Director		
6	Approval of Directors' fees amounting to S$111,070.00 for the financial year ended 31 December 2015		
7	Re-appointment of Messrs Ernst & Young LLP as Auditors and authority to Directors to fix remuneration		
8	Authority to issue shares		

* *If you wish to exercise all your votes 'For' or 'Against', please tick (√) within the box provided. Alternatively, please indicate the number of votes as appropriate.*

Dated this ____________ day of ________________ 2016

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 81SF of the Securities and Futures Act, Chapter 289 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 (other than a Relevant Intermediary*), 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 (other than a Relevant Intermediary*) appoints two proxies, the appointments shall be invalid unless he/she specifies the proportion of his/her shareholding (expressed as a percentage of the whole) to be represented by each proxy.
4. A Relevant Intermediary may appoint more than two proxies, but each proxy must be appointed to exercise the rights attached to a different share or shares held by him (which number or class of shares shall be specified).
5. Subject to note 9, 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.
6. 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 less than 48 hours before the time appointed for the Meeting.
7. The instrument appointing a proxy or proxies must be under the hand of the appointor or of his attorney duly authorized 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 authorized. 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.
8. A corporation which is a member may authorize 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, and the person so authorised shall upon production of a copy of such resolution certified by a director of the corporation to be a true copy, be entitled to exercise the powers on behalf of the corporation so represented as the corporation could exercise in person if it were an individual.
9. An investor who holds shares under the Central Provident Fund Investment Scheme ("CPF Investor") and/or the Supplementary Retirement Scheme ("SRS Investors") (as may be applicable) may attend and cast his vote(s) at the Meeting in person. CPF and SRS Investors who are unable to attend the Meeting but would like to vote, may inform their CPF and/or SRS Approved Nominees to appoint the Chairman of the Meeting to act as their proxy, in which case, the CPF and SRS Investors shall be precluded from attending the Meeting.

* A Relevant Intermediary is:

(a) a banking corporation licensed under the Banking Act (Cap. 19) or a wholly-owned subsidiary of such a banking corporation, whose business includes the provision of nominee services and who holds shares in that capacity; or

(b) a person holding a capital markets services licence to provide custodial services for securities under the Securities and Futures Act (Cap. 289) and who holds shares in that capacity; or

(c) the Central Provident Fund Board established by the Central Provident Fund Act (Cap. 36), in respect of shares purchased under the subsidiary legislation made under that Act providing for the making of investments from the contributions and interest standing to the credit of members of the Central Provident Fund, if the Board holds those shares in the capacity of an intermediary pursuant to or in accordance with that subsidiary legislation.

Personal Data Privacy:

By submitting an instrument appointing a proxy(ies) and/or representative(s), the member accepts and agrees to the personal data privacy terms set out in the Notice of Annual General Meeting dated 6 April 2016.

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 72 hours before the time appointed for holding the Meeting, as certified by The Central Depository (Pte) Limited to the Company.

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

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