

SMARTFLEX HOLDINGS LIMITED
(Company Registration No: 201003501R)

**UNAUDITED HALF YEAR FINANCIAL STATEMENT AND DIVIDEND
ANNOUNCEMENT FOR THE SIX MONTHS PERIOD ENDED 30 JUNE 2014**

*This announcement and its contents have been reviewed by the Company's sponsor, RHT Capital Pte Ltd ("**Sponsor**"), for compliance with the relevant rules of the Singapore Exchange Securities Trading Limited (the "**SGX-ST**"). 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.

SMARTFLEX HOLDINGS LIMITED
(Company Registration No: 201003501R)

PART 1 – INFORMATION REQUIRED FOR ANNOUNCEMENTS OF QUARTERLY (Q1,Q2 & Q3), HALF-YEAR AND FULL YEAR RESULTS

1(a)(i) An income statement and statement of comprehensive income, or a statement of comprehensive income (for the group), together with a comparative statement for the corresponding period of the immediately preceding financial year.

CONSOLIDATED STATEMENT OF COMPREHENSIVE INCOME

	Group		Increase / (Decrease) %
	Six months ended		
	30 Jun 2014 USD'000	30 Jun 2013 USD'000	
Revenue	14,513	10,390	39.7
Cost of sales	(10,970)	(8,971)	22.3
Gross profit	3,543	1,419	149.7
Other income	103	75	37.3
Selling and distribution expenses	(45)	(45)	-
Administrative expenses	(2,400)	(1,977)	21.4
Finance expense	(21)	(25)	(16.0)
Share of results of joint venture	(177)	(45)	293.3
Profit/(loss) before taxation	1,003	(598)	N.M.
Taxation	(259)	96	N.M.
Profit/(loss) net of tax	744	(502)	N.M.
Other comprehensive income for the period, net of tax:			
Total comprehensive income attributable to equity holders of the Company	744	(502)	N.M.
Earnings per share (USD cents)			
Basic	0.77	(0.61)	
Diluted	0.77	(0.61)	

1(a)(ii) Notes to consolidated statement of comprehensive income

The Group's profit before taxation is arrived at after (charging) / crediting:

	Group		Increase / (Decrease)	Note
	Six months ended			
	30 Jun 2014	30 Jun 2013		
	USD'000	USD'000	%	
Depreciation on plant and equipment	(852)	(884)	(3.6)	(1)
Interest income	48	27	77.8	(2)
Interest expense	(21)	(25)	(16.0)	(3)
Foreign exchange gain/(loss)	42	(21)	N.M.	(4)
FY2012 tax refund	-	38	N.M.	

Notes:

- (1) Lower depreciation charges on plant and equipment in 1H2014 was due to certain assets which had been fully depreciated during the period under review.
- (2) Higher interest income was mainly due to increase in advances to related parties.
- (3) Lower interest expense in 1H2014 was due to lower prevailing interest rates and repayment of term loans during the period under review.
- (4) A foreign exchange gain was recorded in 1H2014 vis-à-vis a loss in 1H2013 due to appreciation of United States Dollars against the other operating currencies of the Group during the period under review.

1(b)(i) A statement of financial position (for the issuer and group), together with a comparative statement as at the end of the immediately preceding financial year.

STATEMENT OF FINANCIAL POSITION

	Group		Company	
	30 Jun 14 USD'000	31 Dec 13 USD'000	30 Jun 14 USD'000	31 Dec 13 USD'000
ASSETS				
Non-current assets				
Plant and equipment	6,976	6,575	-	-
Investment in subsidiary	-	-	7,197	7,197
Investment in joint venture	541	718	1,095	1,095
	<u>7,517</u>	<u>7,293</u>	<u>8,292</u>	<u>8,292</u>
Current assets				
Inventories	4,523	3,649	-	-
Trade and other receivables	4,096	3,481	-	-
Amount owing by subsidiary	-	-	1,415	1,534
Loan to joint venture	1,440	924	-	-
Loan to related party	780	663	-	-
Prepayments	148	96	-	3
Cash and cash equivalents	3,894	3,919	12	14
	<u>14,881</u>	<u>12,732</u>	<u>1,427</u>	<u>1,551</u>
Total assets	<u>22,398</u>	<u>20,025</u>	<u>9,719</u>	<u>9,843</u>
LIABILITIES				
Current liabilities				
Trade payables	3,587	3,402	-	-
Other payables and accruals	997	929	70	95
Loans and borrowings	3,532	2,412	-	-
Tax payable	172	-	-	-
	<u>8,288</u>	<u>6,743</u>	<u>70</u>	<u>95</u>
Net current assets	<u>6,593</u>	<u>5,989</u>	<u>1,357</u>	<u>1,456</u>
Non-current liabilities				
Deferred tax liabilities	843	759	-	-
Provision for reinstatement	252	252	-	-
Total liabilities	<u>9,383</u>	<u>7,754</u>	<u>70</u>	<u>95</u>
NET ASSETS	<u>13,015</u>	<u>12,271</u>	<u>9,649</u>	<u>9,748</u>
EQUITY				
Share capital	10,236	10,236	10,236	10,236
Revenue reserve	7,767	7,023	(587)	(488)
Merger reserve	(4,988)	(4,988)	-	-
Total equity attributable to owners of the company	<u>13,015</u>	<u>12,271</u>	<u>9,649</u>	<u>9,748</u>

1 (b)(ii) Aggregate amount of Group’s borrowings and debt securities.

Amount repayable in one year or less, or on demand

As at 30 Jun 2014		As at 31 Dec 2013	
Secured USD’000	Unsecured USD’000	Secured USD’000	Unsecured USD’000
365	3,167	464	1,948

Amount repayable after one year

As at 30 Jun 2014		As at 31 Dec 2013	
Secured USD’000	Unsecured USD’000	Secured USD’000	Unsecured USD’000
-	-	-	-

Note:

The banking facilities of the Group are free of any guarantees or collaterals except that the term loans of an aggregate principal amount of USD0.36 million (31 December 2013: USD0.46 million) are secured by a pledge over certain equipment of Smartflex Technology Pte Ltd (“Smartflex Technology”), the subsidiary of the Group.

As at 30 June 2014, Smartflex Technology stood as guarantor for the provision of bank’s equipment term loans aggregating approximately USD1.52 million to Smartflex Innovation Pte Ltd (“Smartflex Innovation”), a joint venture with SanSystems SARL, France.

- 1(c) A statement of cash flows (for the group), together with a comparative statement for the corresponding period of the immediately preceding financial year.

STATEMENT OF CASH FLOWS

	Group	
	Six Months ended	
	30 Jun 2014	30 Jun 2013
	USD'000	USD'000
Cash flows from operating activities		
Profit/(loss) before taxation	1,003	(598)
Adjustments for:-		
Depreciation on plant and equipment	852	884
Property, plant and equipment written off	-	4
Interest income	(48)	(27)
Interest expense	21	25
Share of results of joint venture	177	45
Operating cash flows before working capital changes	2,005	333
Increase in trade and other receivables and prepayments	(667)	(1,119)
(Increase)/decrease in inventories	(874)	1,330
Increase/(decrease) in trade and other payables	253	(2,214)
Cash flows generated from/(used in) operations	717	(1,670)
Interest received	48	27
Interest paid	(21)	(25)
Income tax (paid)/refund, net	(3)	32
Net cash flows generated from/(used in) operating activities	741	(1,636)
Cash flows from investing activities		
Purchase of plant and equipment	(1,253)	(8)
Proceeds from issuance of shares	-	1,111
Loan to joint venture	(516)	(944)
Loan to related party	(117)	-
Net cash flows (used in)/generated from investing activities	(1,886)	159
Cash flows from financing activities		
Repayments of term loans	(99)	(199)
Net proceeds from trade finance facilities	1,219	1,222
Dividends paid	-	(201)
Net cash flows generated from financing activities	1,120	822
Net decrease in cash and bank balances	(25)	(655)
Cash and bank balances at beginning of the period	3,919	4,277
Cash and bank balances at end of the period	3,894	3,622

1(d)(i) A statement (for the issuer and group) showing either (i) all changes in equity or (ii) changes in equity other than those arising from capitalisation issues and distributions to shareholders, together with a comparative statement for the corresponding period of the immediately preceding financial year.

	Share capital	Accumulated profit	Merger Reserve	Total
	USD'000	USD'000	USD'000	USD'000
<u>Group</u>				
Balance as at 1 January 2014	10,236	7,023	(4,988)	12,271
Total comprehensive income for the financial period	-	744	-	744
Balance as at 30 June 2014	10,236	7,767	(4,988)	13,015
Balance as at 1 January 2013	9,125	7,265	(4,988)	11,402
New issuance of shares	1,111	-	-	1,111
Total comprehensive income for the financial period	-	(502)	-	(502)
Dividends paid (Note 1)	-	(201)	-	(201)
Balance as at 30 June 2013	10,236	6,562	(4,988)	11,810
<u>Company</u>				
Balance as at 1 January 2014	10,236	(488)	-	9,748
Total comprehensive income for the financial period	-	(99)	-	(99)
Balance as at 30 June 2014	10,236	(587)	-	9,649
Balance as at 1 January 2013	9,125	(272)	-	8,853
New issuance of shares	1,111	-	-	1,111
Total comprehensive income for the financial period	-	76	-	76
Dividends paid (Note 1)	-	(201)	-	(201)
Balance as at 30 June 2013	10,236	(397)	-	9,839

Note:

(1) Dividends of USD200,433 in respect of FY2012 was proposed and paid on 27 May 2013.

Save for the foregoing, there are no other (i) changes in equity or (ii) changes in equity other than those arising from capitalization issues and distributions to shareholders.

- 1(d)(ii) Details of any changes in the company's share capital arising from rights issue, bonus issue, share buy-backs, exercise of share options or warrants, conversion of other issues of equity securities, issue of shares for cash or as consideration for acquisition or for any other purpose since the end of the previous period reported on. State also the number of shares that may be issued on conversion of all the outstanding convertibles, as well as the number of shares held as treasury shares, if any, against the total number of issued shares excluding treasury shares of the issuer, as at the end of the current financial period reported on and as at the end of the corresponding period of the immediately preceding financial year.**

The Company has no shares that may be issued on conversion of outstanding convertibles or treasury shares as at the end of the current financial period reported on and as at the end of the corresponding period of the immediately preceding financial year.

- 1(d)(iii) To show the total number of issued shares excluding treasury shares as at the end of the current financial period and as at the end of the immediately preceding year.**

	As at 30 Jun 2014	As at 31 Dec 2013
Total number of issued shares	96,440,002	96,440,002
Treasury shares	Nil	Nil

- 1(d)(iv) A statement showing all sales, transfers, disposal, cancellation and/or use of treasury shares as at the end of the current financial period reported on.**

Not applicable.

- 2 Whether the figures have been audited or reviewed and in accordance with which auditing standard or practice.**

The figures have not been audited or reviewed by the independent auditor.

- 3 Where the figures have been audited or reviewed, the auditors' report (including any qualifications or emphasis of a matter).**

Not applicable.

- 4 Whether the same accounting policies and methods of computation as in the issuer's most recently audited annual financial statements have been applied.**

The Group and the Company have applied the same accounting policies and methods of computation in the unaudited financial statements for the six months period ended 30 June 2014 as in the Group's most recent financial statements for the financial year ended 31 December 2013.

- 5 If there are any changes in the accounting policies and methods of computation, including any required by an accounting standard, what has changed, as well as the reasons for, and the effect of, the change.**

There are no changes in the accounting policies and methods of computation including any required by an accounting standard.

6 Earnings per ordinary share of the group for the current financial period reported on and the corresponding period of the immediately preceding financial year, after deducting any provision for preference dividends.

Earnings Per Share (“EPS”)

	Group	
	30 Jun 2014	30 Jun 2013
Earnings attributable to equity holders of the Company (USD’000)	744	(502)
Basic EPS attributable to equity holders of the Company (USD cents)	0.77	(0.61)
Fully diluted EPS attributable to equity holders of the Company (USD cents)	0.77	(0.61)
Weighted average number of shares used in computation of basic and diluted EPS	96,440,002	82,670,771

Basic EPS is computed by dividing the earnings attributable to the equity holders of the Company in each financial period by the weighted average number of ordinary shares outstanding as at the end of the respective financial period.

Fully diluted EPS for 1H2014 and 1H2013 are the same as the basic EPS as the Company does not have any outstanding instruments convertible into, rights to subscribe for and options in respect of its ordinary shares during the respective financial periods.

7 Net asset value (for the issuer and group) per ordinary share based on the total number of issued shares excluding treasury shares of the issuer at the end of the:-
(a) current financial period reported on; and
(b) immediately preceding financial year.

Net Asset Value (“NAV”)

	Group		Company	
	As at 30 Jun 2014	As at 31 Dec 2013	As at 30 Jun 2014	As at 31 Dec 2013
NAV per ordinary share (USD cents)	13.5	12.7	10.0	10.1
Number of shares used in computation of NAV per share	96,440,002	96,440,002	96,440,002	96,440,002

8 A review of the performance of the group, to the extent necessary for a reasonable understanding of the group's business. It must include a discussion of the following:-

- (a) any significant factors that affected the turnover, costs, and earnings of the group for the current financial period reported on, including (where applicable) seasonal or cyclical factors; and**
- (b) any material factors that affected the cash flow, working capital, assets or liabilities of the group during the current financial period reported on.**

Revenue

Revenue for the six months ended 30 June 2014 was USD14.51 million, a growth of USD4.12 million or 39.7% over the corresponding period in preceding year. This was mainly due to growth in customers' demand and securing more orders in the Banking and Dual Interface segments.

Gross Profit and Gross Margin

Gross profit increased by approximately USD2.12 million or 149.7% from USD1.42 million in 1H2013 to USD3.54 million in 1H2014 mainly due to economies of scale and a more favorable sales mix. As a result, gross margin improved to 24.4% in 1H2014 from 13.7% in 1H2013.

Other Income

Other income increased by approximately USD0.03 million or 37.3% from USD0.08 million in 1H2013 to USD0.10 million in 1H2014. This was mainly due to financial incentives received from government and higher interest income (please see commentary in Note (2) under 1(a)(ii)).

Administrative Expenses

Administrative expenses increased by approximately USD0.42 million or 21.4% from USD1.98 million in 1H2013 to USD2.40 million in 1H2014. This was mainly due to higher staff costs and related expenses of USD0.38 million and an increase in rental and utilities costs of USD0.08 million.

Finance Expense

Finance expense decreased by USD4,000 or 16.0% from USD25,000 in 1H2013 to USD21,000 in 1H2014 due mainly to lower prevailing interest rates and repayment of term loans during the period under review.

Taxation

The high effective tax rate of 25.8% in 1H2014 was due to share of loss of the joint venture and overprovision of deferred tax liability (USD0.07 million) in respect of prior years. Excluding these items, the effective tax rate was 15.9%.

Net Profit

For the reasons mentioned above, the Group achieved a net profit attributable to equity holders of the Company of USD0.74 million in 1H2014 as compared with a net loss of USD0.50 million in 1H2013.

REVIEW OF FINANCIAL POSITION

Non-current Assets

Plant and equipment increased by approximately USD0.40 million or 6.1% from the preceding financial year end due mainly to additions of USD1.25 million of plant and equipment to increase capacity and enhance production capabilities to support business growth. This was partially offset by depreciation charge of USD0.85 million.

Current Assets

Current assets was USD14.88 million as at 30 June 2014, an increase of USD2.15 million from the preceding financial year end. This came mainly from increase in inventories and trade and other receivables of USD0.87 million and USD0.67 million respectively which corresponded to the higher revenue.

Current Liabilities

Current liabilities was USD8.29 million as at 30 June 2014, an increase of USD1.55 million from the preceding financial year end. This was attributable mainly to higher utilization of trade finance facilities of USD1.22 million to finance the increase in inventories to support the increased sales volume during the period.

REVIEW OF CASH FLOW STATEMENT

Net cash of USD0.74 million was generated from operating activities in 1H2014, compared to net cash outflow of USD1.64 million in the preceding year. This was attributable mainly to profit before taxation of USD1.00 million in 1H2014 as compared to losses incurred in 1H2013 and improvement in working capital.

Net cash used in investing activities was USD1.89 million, compared to net cash inflow of USD0.16 million in the preceding year. This was primarily for purchases of plant and equipment and advances to Smartflex Innovation for its operations.

Net cash generated from financing activities was USD1.12 million, compared to USD0.82 million in the preceding year. This came from net proceeds from trade finance facilities of USD1.22 million, offset by repayments of term loans of USD0.10 million.

Consequently, cash and cash equivalents was down by USD0.03 million, bringing balance as at 31 December 2013 to USD3.89 million as at 30 June 2014.

9 Where a forecast, or a prospect statement, has been previously disclosed to shareholders, any variance between it and the actual results.

The results are in line with previous commentaries made.

10 A commentary at the date of the announcement of the significant trends and competitive conditions of the industry in which the group operates and any known factors or events that may affect the group in the next reporting period and the next 12 months.

Although the market demand did pick up in the 1H2014, the business environment in which the Group operates in remains competitive and challenging. We have observed price erosion and stagnated growth (especially in the Telecom products) after 1H2014. Moving forward, the Group's direction would be to secure more orders from higher margin devices, such as Dual Interface module and other banking products. The Banking products that we are offering, currently has a high market growth potential with more countries (in Asia, Europe and America) moving gradually towards the migration from magnetic strip cards to secured chip cards.

Smartflex Innovation, has completed successful trials of its new product, currently marketed as EcoSIM. At present, our customers are performing field tests with their end users.

Barring unforeseen circumstances, the Board is optimistic that the Group would be profitable for the whole year.

11 Dividend

**(a) *Current financial period reported on*
Any dividend declared for the current financial period reported on?**

Yes.

Name of dividend	First interim dividend
Dividend type	Cash
Dividend amount per ordinary share	S\$0.005
Tax rate	Tax-exempt (one-tier)

**(b) *Corresponding period of the immediately preceding financial year*
Any dividend declared for the corresponding period of the immediately preceding financial year?**

None.

(c) Date payable

30 September 2014.

(d) Books closure date

The Share Transfer Books and Register of Members the Company will be closed on 15 September 2014 for the purpose of determining the entitlements of the Company's shareholders ("Shareholders") to a first interim tax exempt (one-tier) dividend of 0.5 cents per ordinary share.

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 pm (Singapore time) on 12 September 2014.

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 12 September 2014 will be registered to determine entitlements to the said dividend.

12 If no dividend has been declared/recommended, a statement to that effect.

Not applicable.

13 If the group has obtained a general mandate from shareholders for Interested Person Transactions ("IPTs"), the aggregate value of such transactions as required under Rule 920(1)(a)(ii). If no IPT mandate has been obtained, a statement to that effect.

The Group has not obtained a general mandate from shareholders for IPTs.

There were no IPTs in 1H2014.

14 Negative confirmation pursuant to Rule 705(5) (Not required for announcement on full year results.)

We, Tan Tong Guan and Ng Eng Seng, being two directors of the Company, do hereby confirm on behalf of the directors of the Company that, to the best of their knowledge, nothing has come to the attention of the board of directors of the Company which may render the unaudited financial statements of the Group for the six-months financial period ended 30 June 2014 to be false or misleading in any material aspect.

On behalf of the Board of Directors

Tan Tong Guan
Executive Chairman

Ng Eng Seng
Chief Executive Officer

BY ORDER OF THE BOARD

Tan Tong Guan
Executive Chairman

8 August 2014