CEI Contract Manufacturing Limited

Company Registration No: 199905114H

2012 ANNUAL REPORT

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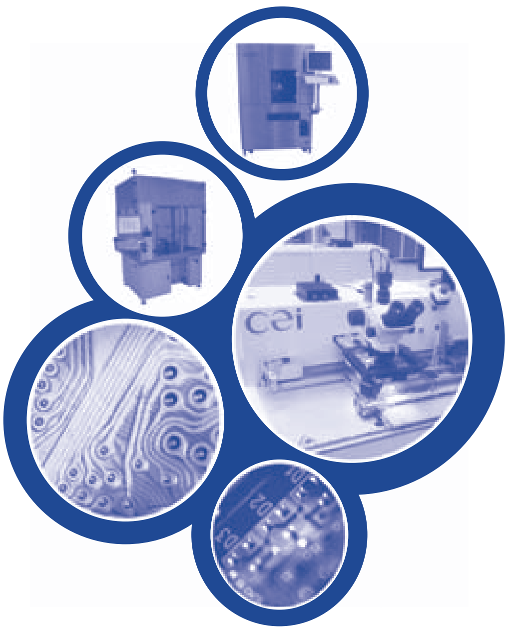


CORPORATE PROFILE

CEI Contract Manufacturing Limited
2, Ang Mo Kio Avenue 12
Singapore 569707

CEI Contract Manufacturing Limited was listed on the main board of the Singapore Exchange Securities Trading Limited in March 2000.

The Company provides printed circuit board and box-build assembly, equipment design, cable harness assembly and manufacturing services. It is well equipped to provide value-added services such as materials management, circuit layout, prototype & development engineering, metal stamping, cable harnessing and precision machined components.

The Company serves customers in the industrial equipment market segment. These include electroluminescence displays used in industrial, transportation and medical applications; medical and health care equipment; office equipment as in digital photocopiers; analytical instruments as in gas and liquid chromatographs and measurement instruments; industrial safety controllers and environmental sensors, front and back end semiconductor equipment and SMT equipment.

The Company is ISO9001, ISO13485, ISO14001, UL508A, UL817 certified and AS9100 & TS16949 (Letter of Compliance).

Headquartered in Singapore with manufacturing sites in Singapore, Batam (Indonesia), Ho Chi Minh City (Vietnam) and Shanghai (China).

PT Surya Teknologi
Batamindo Industrial Park
Lot 312/313 Jalan Beringin, Muka Kuning
Batam, Indonesia

CEI International Investments (VN) Limited
2, Street 6, Vietnam Singapore Industrial Park
Thuan An, Binh Duong Province
Vietnam

Board of Directors
Tien Sing Cheong
(Executive Chairman)

Tan Ka Huat
(Managing Director)

Gan Chee Yen
(Non-Executive Director)

Tan Bien Chuan
(Independent Director)

Tang Martin Yue Nien
(Independent Director)

Colin Ng Teck Sim
(Independent Director)

Nominating Committee
Colin Ng Teck Sim (Chairman)
Tang Martin Yue Nien
Tien Sing Cheong

Remuneration Committee
Tang Martin Yue Nien (Chairman)
Tan Bien Chuan
Gan Chee Yen
Colin Ng Teck Sim

Audit Committee
Tan Bien Chuan (Chairman)
Tang Martin Yue Nien
Gan Chee Yen
Colin Ng Teck Sim

Joint Company Secretaries
Teo Soon Hock
Susie Low Geok Eng

Registered Office
2 Ang Mo Kio Avenue 12
Singapore 569707

Share Registrar and Share Transfer Office
Boardroom Corporate & Advisory Services Pte Ltd
50 Raffles Place #32-01
Singapore Land Tower
Singapore 048623

Auditors
Ernst & Young LLP
Certified Public Accountants
Tan Chian Khong (Engagement Partner)*
Level 18, One Raffles Quay
North Tower
Singapore 048583
*Appointed in Financial Year 2012

Solicitors
Colin Ng & Partners
36 Carpenter Street
Singapore 059915

Bankers
DBS Bank Ltd
6 Shenton Way
DBS Building Tower 1
Singapore 068809

The Hongkong and Shanghai
Banking Corporation Limited
21 Collyer Quay #01-00
HSBC Building
Singapore 049320

Standard Chartered Bank
6 Battery Road #22-00
Singapore 049909

CHAIRMAN'S MESSAGE

DEAR SHAREHOLDERS

FINANCIAL YEAR 2012

In Financial Year (FY) 2012, the Group's Revenue of $106.5 million was 1.7% higher than FY 2011. The Gross Profit Margin increased from 20.5% in FY 2011 to 20.9% in FY 2012.

The Profit from Operations was $5.3 million, an increase of 8.2%. The General and Administrative Costs was higher by 10.7% due to increase in headcount and salary-related costs. The increase in headcount was to support future growth of the business. Other income (including interest income) increased by approximately $1.0 million due to a one-off gain on disposal of investment securities.

The Group's Profit after taxation increased by 1.3% to $3.56 million after providing for an impairment of goodwill of $0.96 million in FY 2012.

Inventories decreased by $2.5 million from $28.6 million to $26.1 million in FY 2012. The cash generated from the reduced inventories, and the proceeds from the disposal of investment securities, were used to reduce the short-term and long-term borrowings from $18.6 million to $14.5 million.

FINANCIAL YEAR 2013

As at 31 December 2012, the Group has orders on hand worth $43.8 million (31 December 2011: $53.3 million) most of which are expected to be fulfilled within the current financial year.

The Group's financial performance will continue to be influenced by the fluctuation in US$.

The Group serves customers from a diverse range of market segments. These include analytical instruments, medical equipment, semi-conductor equipment, oil and gas industries and displays for industrial applications.

The Group expects higher labour costs in the countries where the Group carries out its manufacturing operations. We are cautiously optimistic about the performance of the Group for the year.

Dividends

The Directors recommend payment of:

(a) One-tier tax-exempt second and final dividend of 0.10 cents per share amounting to $346,794 and
(b) One-tier tax-exempt special dividend of 0.05 cents per share amounting to $173,397

Total interim, final and special dividends declared for the financial year FY 2012 was 74.0% of the profit after taxation, which approximate to $2,635,634 or 0.76 cents per share.

Acknowledgement

My sincere appreciation to our Customers, Business Partners, Suppliers, Shareholders and Employees of CEI, for your continual support.

Tien Sing Cheong
Chairman
8 March 2013

BOARD OF DIRECTORS

Mr Tien Sing Cheong

Executive Chairman

Appointed as Executive Director on 28 August 1999 and was last re-elected on 15 April 2011. Mr Tien is also the Executive Chairman of the Company. Mr Tien holds a Bachelor of Science in Engineering degree from the University of Hong Kong, a Master of Science degree from Stanford University, California and a Master of Business Administration degree from the University of Santa Clara, California. Mr Tien is also a Fellow of the Institution of Mechanical Engineers, United Kingdom.

Mr Tan Ka Huat

Managing Director

Appointed as Executive Director on 28 August 1999 and also Managing Director of the Company. Mr Tan holds a Bachelor of Science (Physics) degree from Nanyang University (now NTU), a Diploma in Business Administration from the National University of Singapore and a Master of Business degree from University of Technology, Sydney.

Mr Gan Chee Yen

Non-Executive Director

Appointed as a Non-Executive Director since 28 August 1999 and was last re-elected on 15 April 2010. Mr Gan is the Chief Executive Officer of Fullerton Financial Holdings Pte Ltd, a wholly-owned subsidiary of Temasek Holdings (Private) Limited. He is also a member of the Board of Commissioner of PT Bank Danamon Indonesia, Tbk. Mr Gan holds a Bachelor of Accountancy degree from the National University of Singapore. He has also participated in the Program for Management Development at the Harvard Business School in September 2001.

Mr Tan Bien Chuan

Independent Director

Appointed as an Independent and Non-Executive Director on 9 February 2000 and was last re-elected on 16 April 2012. Mr Tan is the co-founder and Managing Director of OWW Capital Partners Pte Ltd, a venture capital firm. He is also a non-executive director of Goodpack Limited and Asia Venture Philanthropy Network Limited. Mr Tan holds a Bachelor of Science (Hons) degree in Computer Science and Accounting from the University of Manchester, United Kingdom and is a member of the Institute of Chartered Accountants in England and Wales.

Mr Tang Martin Yue Nien

Independent Director

Appointed as an Independent and Non-Executive Director on 9 February 2000 and was last re-elected on 15 April 2011. Mr. Tang is a private investor based in Hong Kong. He was Chairman, Asia of Spencer Stuart, a global executive search consulting firm. Mr. Tang holds a Bachelor of Science degree in Electrical Engineering from Cornell University in Ithaca, New York and a Masters of Science degree from the Massachusetts Institute of Technology's (MIT) Sloan School of Management. He is a member of the MIT Corporation and trustee emeritus at Cornell University.

Mr Colin Ng Teck Sim

Independent Director

Appointed as an Independent and Non-Executive Director on 1 January 2007 and was last re-elected on 16 April 2012. Mr. Ng is the founding partner of Colin Ng & Partners. He is an advocate and solicitor of the Supreme Court of Singapore and a solicitor of the Supreme Court of England and Wales. He is also a notary public, a member of the Appeals Panel of the Singapore Exchange Limited and a registered professional with Catalist for continuing sponsorship. Mr Ng graduated with a LLB (Hons) from the National University of Singapore in 1981. He also holds a Master of Business Administration (Accountancy) from Nanyang Technology University.

KEY MANAGEMENT EXECUTIVES

Ms Belinda Thng Ah Hiang is the Senior Director, Customer Relations Management / Marketing. Ms Thng holds a Diploma in Industrial Management from the Singapore Polytechnic.

Mr. Chan Cheong Seng is the General Manager, Equipment Manufacturing Division. Mr. Chan holds a Bachelor degree in Engineering (Mechanical and Production) from National University of Singapore.

Mr Heng Teck Yow is the Director, Business Development / Process Engineering. Mr Heng holds a Diploma in Industrial Engineering.

Mr Li Ying Kit is the General Manager, CEI International Investments (VN) Limited, Vietnam. Mr Li holds a Bachelor of Science (Hons) degree in Electrical Engineering from the National Defence Academy (Japan) and a Master of Science degree in Defence Technology from Cranfield Institute of Technology, United Kingdom.

Mr Ng Cheng Kung is the General Manager, PT Surya Teknologi, Batam. Mr Ng holds an Advanced Diploma in Automation in Manufacturing from the Singapore Polytechnic.

Mr. Ong Choon Peng is the Director, Materials Management. Mr. Ong holds a Bachelor of Business degree in Marketing from Curtin University of Technology, a Diploma in Management Studies from the Singapore Institute of Management and a Technican Diploma in Production Engineering.

Mr Seow Sin Leng is the Senior Director, Corporate Services. Mr Seow holds a Bachelor of Accountancy degree and attended an Executive MBA programme for his Master of Business Administration degree from the University of Singapore.

Mr Sia Chee Hoe is the Chief Financial Officer. He is a Non-Practising Member of the Institute of Certified Public Accountants of Singapore. He holds a qualification from the Association of Chartered Certified Accountants.

Mr. Sim Hak Khiang is the Director, Engineering. Mr Sim holds a Master of Science degree in Industrial Engineering and a Bachelor of Engineering degree in Electrical Engineering from the National University of Singapore.

REPORT ON CORPORATE GOVERNANCE

CEI is committed in observing good standards of corporate governance and a continual process of developing procedures and policies in keeping with best business practice.

This Report describes CEI's corporate governance practices with specific reference to the Code of Corporate Governance (Code), a listing requirement under the SGX-ST Listing Manual.

Where otherwise indicated, CEI believes that it has and will remain compliant with the Code.

BOARD OF DIRECTORS

In complying with the Code –

- The Company is headed by an effective Board to lead and control its operations and affairs (Principle 1);
- Attendance of Board meetings and Committee meetings held during the financial year are set out under Table A (Guideline 1.4);
- In ensuring that operations and Board executive time are not disrupted, Board and Committee meetings for the ensuing financial year are organised prior to the start of each ensuing financial year (Guideline 3.2(a));
- The Executive Chairman sets the agenda for each board meeting in consultation with the Managing Director. As a general rule, board papers are disseminated to directors 3 working days prior to a scheduled meeting. As and when required, management personnel are invited to Board meetings to provide additional information on any matters held for discussion (Guidelines 3.2(a) and 3.2(d));
- Apart from scheduled Board Meetings, all directors are apprised of the financial performance of the Company and the Group on a monthly basis (Guideline 3.2(b));
- Article 120(2) of the Company's Articles of Association provides for telephonic and video-conferencing meetings (Guideline 1.4);
- All transactions concerning mergers, acquisitions, investments and capital expenditures exceeding $500,000 are discussed and come under the Board's purview (Guideline 1.5);
- The Company will update newly appointed and existing directors on relevant new laws, regulations and changing commercial risks as and when they are made known (Guideline 1.6);
- The Company's Board composition and balance comprise independent directors making up at least one-third of the Board (Guideline 2.1);
- Directors are considered independent under circumstances spelt out in Principle 2, Guideline 2.1 of the Code (Guideline 2.1);
- In considering the scope and nature of the operations of the Company and of the Group, the current size of the Board is considered appropriate. Additional members will be added to the Board as and when circumstances require (Guideline 2.3);
- There are adequate relevant competencies of the directors, who as a group carry specialist backgrounds in strategic planning and direction, industry knowledge and experience, accounting and finance, legal, investment banking and corporate finance and human resource executive search and management (Guideline 2.4);
- The Company's Board assumes responsibility for corporate governance (Principle 1);
- Should directors, whether as a group or individually, need independent professional advice, an officer of the Company will, upon direction by the Board, appoint a professional advisor selected by the group or the individual, to render the advice. Such costs from professional advice rendered will be borne by the Company (Principle 6.5);
- The Company Secretary attends all board meetings. The Company Secretary assists the Board in ensuring that procedures are followed and that the Company complies with the requirements of the Companies Act and all other rules and regulations of the SGX (Guideline 6.3); and
- To ensure an appropriate balance of power, increased accountability and greater capacity of the Board for independent decision-making, the roles of Chairman and Chief Executive Officer are separated (Guideline 3.1).

In addition, the Board delegates and entrusts certain of its functions and powers to board committees, namely Audit Committee, Remuneration Committee and Nominating Committee (Guideline 1.3).

TABLE A

DIRECTORS' ATTENDANCE AT BOARD AND BOARD COMMITTEE MEETINGS

Board	Held	Attended
Tien Sing Cheong (Chairman)	3	3
Tan Ka Huat	3	3
Tan Bien Chuan	3	3
Tang Martin Yue Nien	3	3
Gan Chee Yen	3	3
Colin Ng Teck Sim	3	3

Nominating Committee	Held	Attended
Colin Ng Teck Sim (Chairman)	3	3
Tang Martin Yue Nien	3	3
Tien Sing Cheong	3	3

Remuneration Committee	Held	Attended
Tang Martin Yue Nien (Chairman)	3	3
Tan Bien Chuan	3	3
Gan Chee Yen	3	3
Colin Ng Teck Sim	3	3

Audit Committee	Held	Attended
Tan Bien Chuan (Chairman)	3	3
Tang Martin Yue Nien	3	3
Gan Chee Yen	3	3
Colin Ng Teck Sim	3	3

NOMINATING COMMITTEE (NC)

The NC's establishment is in compliance with the Code. Article 126 of the Company's Articles of Association permits the Directors to delegate any of their powers. NC is guided by the Terms of Reference as approved by the Board.

In complying with the Code, a formal and transparent process for the appointment of new directors and re-appointment of directors is in place and empowered through the NC's Terms of Reference (Principle 4).

These principal functions include –

- Making recommendations to the Board on the appointment of new executive and non-executive directors, including making recommendations to the composition of the Board generally and the balance between executive and non-executive directors appointed to the Board (Guideline 4.1);

- Responsibility for identifying and nominating candidates for the approval of the Board, determining annually whether or not a director is independent (Guideline 4.3);

- Recommending Directors, who are retiring by rotation, to be put forward for re-election. All Directors are required to submit themselves for re-nomination and re-election at regular intervals and at least once every three years. Article 107 of the Articles requires one-third of the Board to retire by rotation at every AGM (Guideline 4.2);

- Deciding whether or not a director is able to and has been adequately carrying out his duties as a director of the Company, particularly when a director has multiple board representations (Guideline 4.4);

- To adopt internal guidelines that address the competing time commitments that are faced when directors serve on multiple boards (Guideline 4.4); and

- A formal assessment of the effectiveness of the Board as a whole and the contribution by each director to the effectiveness of the Board (Guideline 5.1).

NOMINATING COMMITTEE (NC) (cont'd)

In evaluating the Board's performance, the NC reviews the Group's performance at all NC meetings, which include –

- Quantitative performance criteria such as return on assets, return on equity, return on investment, profitability on capital employed, dividend yield, share price performance measured against reasonably similar industries together with other financial ratios were considered (Guidelines 5.1, 5.2, 5.3 & 5.5); and

- Qualitative performance criteria such as the Company's strategic longer term and short-term goals were considered (Guidelines 5.1 & 5.2).

REMUNERATION COMMITTEE (RC)

The RC's establishment is in compliance with the Code. Article 126 of the Company's Articles of Association permits the Directors to delegate any of their powers. RC is guided by the Terms of Reference as approved by the Board.

In complying with the Code –

The RC will review and recommend to the Board, a framework of remuneration for the Board and key executives. The RC's review will principally include –

- Review all aspects of remuneration including directors' fees, salaries, allowances, bonuses, options and benefits-in-kind (Principle 7);

- Review remuneration packages against those comparable within the industry and comparable companies where this is possible and that they are reasonable and that these should include a performance-related element coupled to the Company's financial performance (Principle 8); and

- Review remuneration packages of employees related to directors of the Company and of the Group and that these commensurate with their respective job scopes and levels of responsibility (Guideline 9.3).

The RC notes the following with respect to the current financial year –

With respect to remuneration packages for executive directors,

- The Executive Chairman and Managing Director are currently on 2-year Service Agreements which commenced on 1 November 2011 under terms and conditions approved by the Remuneration Committee; and

- The terms of remuneration for the Executive Chairman and Managing Director include a performance bonus element based on the Group's profitability.

Executive directors do not receive Directors' fees.

REMUNERATION COMMITTEE (RC) (cont'd)

Non-executive directors are paid directors' fees subject to approval at the AGM.

The Company's CEI ESOS Scheme administered is disclosed in the Directors' Report (Guideline Note 9.5).

The Company's Share Performance Plan (SPP) is administered by the RC. The RC will ensure that the terms and conditions under the SPP are adhered to. The list of eligible employees and the number of shares to be awarded from the Treasury Shares will be recommended by CEI management and approved by the RC.

A breakdown showing the level and mix of each individual director's remuneration payable for FY 2012 is as follows (Guideline 9.2):

Directors' Remuneration					
	FEES	SALARY	BONUS	BENEFITS	TOTAL
NAME	$	$	$	$	$
Tien Sing Cheong	-	233,703	17,720	13,482	264,905
Tan Ka Huat	-	279,538	22,090	13,300	314,928
Tan Bien Chuan	53,625	-	-	-	53,625
Tang Martin Yue Nien	53,500	-	-	-	53,500
Gan Chee Yen	46,000	-	-	-	46,000
Colin Ng Teck Sim	50,375	-	-	-	50,375

Notes :

Directors' Fees would be subject to approval by shareholders as a lump sum at the AGM for FY 2012.

Directors' interest in share options are disclosed in the Directors' Report For Senior Executives Remuneration (Who Are Not Directors Of The Company), disclosure of the top five executives' remuneration in bands of $250,000 is disclosed in the Notes to the Financial Statements (Guidelines 9.1 & 9.2).

The Company adopts a remuneration policy for staff comprising a fixed component and variable component. The fixed component is in the form of a base salary. The variable component is in the form of a variable bonus that is linked to the Company and individual performance (Principle 9).

No employee of the Group is an immediate family of a director during the financial year ended 31 December 2012 (Guideline 9.3).

AUDIT COMMITTEE (AC)

The AC's establishment is in compliance with the Code and the Companies Act, Cap. 50. Article 126 of the Company's Articles of Association permits the Directors to delegate any of their powers. AC is guided by the Terms of Reference, which incorporates the provisions as regulated and approved by the Board.

In complying with the Code –

- The AC has explicit authority to investigate any matter within its terms of reference, full access to and co-operation by Management and full discretion to invite any director or executive officer to attend its meetings (Guideline 11.3);

- The AC reviews the scope and results of the external and internal audit and its cost effectiveness and the independence and objectivity of the external auditors (Guideline 11.4);

- The AC has undertaken a review of all non-audit services provided by the external auditors and is of the opinion that the provision of such services does not affect the independence of the external auditors;

AUDIT COMMITTEE (AC) (cont'd)

- The AC has met with the external auditors and with the internal auditors respectively, without the presence of the Company's management (Guideline 11.5);

- The AC will review the independence of the external and internal auditors annually (Guideline 11.6); and

- Nominate external auditors for re-appointment.

The Board appointed Ernst & Young LLP as its external auditors for the Company, its Singapore-incorporated subsidiaries and significant associated companies, having regard to the adequacy of the resources and experience of the auditing firm and the audit engagement partner assigned to the audit, the firm's other audit engagements, the size and complexity of the Group being audited, and the number of and experience of supervisory and professional staff assigned to the particular audit. The auditing firm is registered with the Accounting and Corporate Regulatory Authority.

The Board and the Audit Committee of the Company were satisfied that the appointment of different auditors of the Group's overseas' subsidiaries and significant associated company would not compromise the standard and effectiveness of the Group's Audit.

Accordingly, the Company complied with Rule 712 and Rule 716 of the Listing Manual of the Singapore Exchange Securities Trading Limited.

The aggregate amount of fees paid to the external auditors, broken down into audit and non-audit services, is disclosed in the Notes to the Financial Statements. The Audit Committee confirmed that it has undertaken a review of all non-audit services provided by the auditors and they would not, in the Audit Committee's opinion, affect the independence of the auditors for the financial year ended 31 December 2012. (Guideline 11.6)

The Board has ultimate responsibility for the systems of internal control maintained and set in place by management.

The systems are intended to provide reasonable assurance, but not an absolute guarantee against material financial misstatement or loss, safeguarding investments and assets, reliability of financial information, compliance with appropriate legislation, regulation and best practice and the identification of business risks.

To a large extent, the Board's responsibilities are fulfilled through the AC (Guideline 12.1).

The AC has reviewed the Company's risk assessment based on the Internal Auditor reports and given the scope of work done and findings for the year, AC is assured that the Company's systems of internal controls are adequately in place (Guideline 12.1).

In addressing business risks and the adequacy of systems of internal controls, the AC has considered the following (Guideline 12.2) –

- The review and identification of business risks is an ongoing process; and

- A reliance on management and the internal auditors to identify key business risks prior to determining the scope and nature of internal audit work required.

The Company's internal audit function is independent of the business activities it audits (Principle 13) –

- The internal audit function is outsourced to BDO Consultants Pte Ltd (Guidelines 13.2 & 13.3);

- The internal auditor reports directly to the Chairman of AC (Guideline 13.1);

- The scope of internal audit work is proposed by the internal auditor and is approved by the AC (Guideline 13.4); and

- To ensure the adequacy of the internal audit function, the AC is apprised of the internal audit work, findings and follow-up work at all AC meetings (Guideline 13.4).

The Board, with the concurrence of the Audit Committee, was satisfied on the adequacy of the internal controls, addressing financial, operational and compliance risks, for the financial year ended 31 December 2012.

AUDIT COMMITTEE (AC) (cont'd)

Whistle Blowing Policy (Guideline 11.7)

The Board had on the recommendation of AC approved and put in place the Whistle Blowing Policy and Procedure For Reporting Impropriety In Matters of Financial Reporting And Other Matter (Policy). The Policy had been disseminated to staff and they were advised that no staff would be intimidated or restrained from reporting any impropriety to the AC Chairman. Also, the identity of complainant would be kept confidential unless by law required to reveal or the identity of the complainant is already publicly known or the Board of Directors opined that it would be in the best interest of the Group to disclose the identity.

Upon receipt of such complaint, AC Chairman in consultation with fellow members would exercise discretion on how to proceed with the investigation, thereafter recommend any remedial or legal action to be taken, where necessary.

The AC Chairman has received no complaint as at the date of this report.

COMMUNICATION WITH SHAREHOLDERS

In complying with the Code –

- The Company has adopted half-yearly reporting of its financial results based on its market capitalisation and are published through the Company's website and SGXnet (Guideline 14.1);
- All information of the Company's business initiatives is disclosed on a timely basis and the Company does not practice selective disclosure (Guideline 14.2);
- The Company has also engaged the services of Zaobao.com, an investor relations company, as a means of reaching out to its Mandarin speaking audience;
- The Company's AGMs have been well attended and convenient venues have been selected (Guideline 15.1);
- Shareholders are given ample time and opportunities to air their views and ask directors or management questions concerning the Company (Guideline 15.1);
- Separate resolutions for each distinct issue are tabled for shareholders approval (Guideline 15.2); and
- Article 90(2) of the Articles allows a member of the Company to appoint up to two proxies to attend and vote instead of the member.

SECURITIES TRANSACTIONS

The Company has issued a Policy on Share Dealings to key employees of the Company, setting out the implications of insider trading and Rule 1207 (18) of the Listing Manual issued by the Singapore Exchange Securities Trading Limited. To further provide guidance to employees on dealing in the Company's shares, the Company has adopted a code of conduct on transactions in the Company's shares. The code of conduct was modelled after Rule 1207 (18) of the Listing Manual. The Company Secretary informs the directors, senior management and senior accounting personnel that they should not deal in the Company shares during the period commencing one month before half-year and full financial year announcements of the Company's financial statements. In addition the Directors, senior management and senior accounting personnel are discouraged from dealing in the Company's securities on short-term considerations. The Company Secretary also reminds the offence of insider trading under the Securities and Futures Act for the directors and employees to deal in the Company shares when they are in possession of unpublished material price-sensitive information in relation to the Company shares.

The Directors have complied with Rule 1207 (18) of the Listing Manual issued by the Singapore Exchange Securities Trading Limited with regard to dealing in the Company's shares.

There is no material contract of the Company and its subsidiaries involving the interests of the chief executive officer, each director or controlling shareholder for the financial year ended 31 December 2012. [SGX-ST Listing Rule 1207(8)]

On behalf of the Board,

Tien Sing Cheong
Director

Tan Ka Huat
Director

Singapore
8 March 2013

RISK IDENTIFICATION, MANAGEMENT POLICIES AND PROCESSES

Operating and business risks and associated management responses and policies may be summarised as follows:

(i) **Customers**

Today, the Group has more than 80 customers, of which the top 5 customers account for 56% of FY 2012 revenue.

Over the years, the Group has increased its customer base and decreased dependency on any one customer account.

(ii) **Availability and pricing of components**

We procure components needed in manufacturing for our customers. Some of these customers' components are available only from a single supply source. In the event that such suppliers are unable to supply the customised components, we may not be able to develop an alternative source of supply in a timely manner. This will delay our production and delivery to customers and have a material adverse impact on our financial results.

Furthermore, the price of electronic components will increase during periods of shortage. Any significant increase in such purchase price, which cannot be absorbed by the customers, will have a material adverse effect on the financial results.

Working with the customers to accept alternate suppliers is an on-going effort.

(iii) **Currency exchange**

Our sales revenue is denominated mainly in US dollars. Our purchases of components are denominated in US dollars. The percentages of our sales and expenses denominated in foreign currencies in FY 2012 are set out as follows:

	US Dollar
Sales in US dollars as a percentage of total revenue	98%
Purchases in US dollars and Euros as a percentage of total costs	60%

Given that the Singapore dollar is our reporting currency, we have net exposures in US dollar receivables. Therefore, depreciation in the US dollar relative to the Singapore dollar will have an unfavourable effect on our financial results.

We will continue to monitor our foreign exchange exposure and are using hedging instruments to manage our foreign exchange risk on an ongoing basis.

(iv) **Industry competition**

We continue to focus on the high mix / low-to-moderate volume segment of the PCBA, Box-Build and equipment manufacturing. We are not in any position to prevent competitors from entering into the market.

(v) **Dependence on key management personnel**

The success of the Group depends on the continued services of our key management personnel.

The Group encourages succession planning to ensure that there is timely backup.

On behalf of the Board,

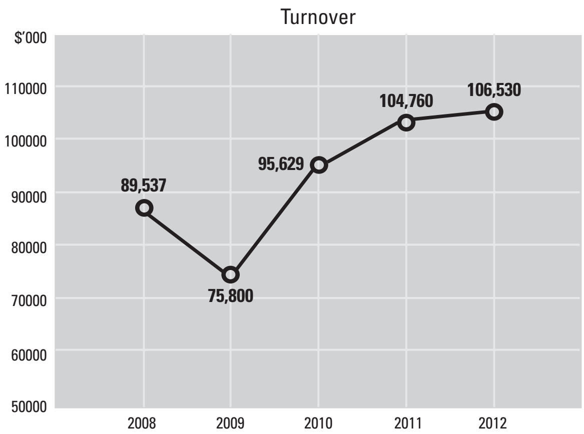
Tien Sing Cheong
Director

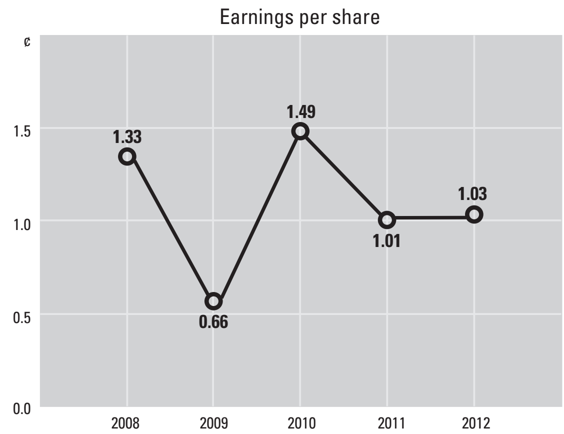
Tan Ka Huat
Director

Singapore
8 March 2013

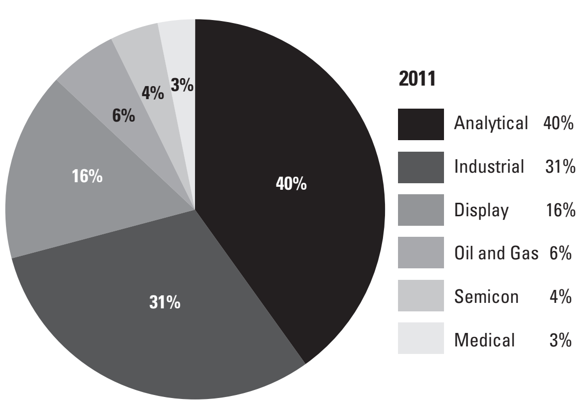
FINANCIAL HIGHLIGHTS

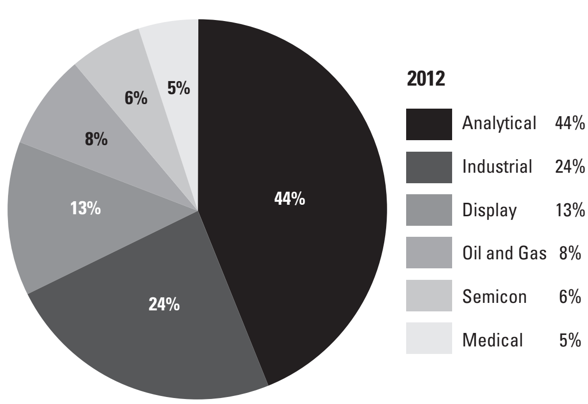
5-YEAR PERFORMANCE OF THE GROUP





REVENUE BY SECTOR





Directors' Report and Audited Financial Statements

CEI Contract Manufacturing Limited & Subsidiary Companies

31 December 2012

Directors

Tien Sing Cheong (Executive Chairman)
Tan Ka Huat (Managing Director)
Gan Chee Yen
Tan Bien Chuan
Tang Martin Yue Nien
Colin Ng Teck Sim

Company Secretaries

Teo Soon Hock
Susie Low Geok Eng

Registered Office

Address:	No. 2 Ang Mo Kio Avenue 12 Singapore 569707
Telephone:	(65) 6481 1882
Fax:	(65) 6578 9755
Email:	susie.low@boardroomlimited.com

Bankers

DBS Bank Ltd
The Hongkong and Shanghai Banking Corporation Limited
Standard Chartered Bank

Share Registrar

Boardroom Corporate and Advisory Services Pte Ltd
50 Raffles Place #32-01
Singapore Land Tower
Singapore 048623

Auditors

Ernst & Young LLP
One Raffles Quay
North Tower, Level 18
Singapore 048583
Partner-in-charge (appointed in Financial Year 2012): Tan Chian Khong

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Directors' Report

The directors are pleased to present their report to the members together with the audited consolidated financial statements of CEI Contract Manufacturing Limited (the "Company") and its subsidiary companies (collectively, the "Group") and the balance sheet and statement of changes in equity of the Company for the financial year ended 31 December 2012.

Directors

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

Tien Sing Cheong (Executive Chairman)
Tan Ka Huat (Managing Director)
Gan Chee Yen
Tan Bien Chuan
Tang Martin Yue Nien
Colin Ng Teck Sim

In accordance with Article 107 of the Company's Articles of Associations, Mr. Tien Sing Cheong and Mr. Gan Chee Yen will retire and, being eligible, offer themselves for re-election.

Arrangements to enable directors to acquire shares and debentures

Except as described under "Directors' interest in shares and debentures", neither at the end of nor at any time during the financial year was the Company a party to any arrangement whose objects are, or one of whose object is, to enable the directors of the Company to acquire benefits by means of the acquisition of shares or debentures of the Company or any other body corporate.

Directors' interest in shares and debentures

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

	Direct interest	
Name of director	**At beginning of the year**	**At end of the year**
The Company		
Ordinary shares		
Tien Sing Cheong	34,687,600	34,687,600
Tan Ka Huat	15,901,360	15,901,360
Gan Chee Yen	1,377,200	1,377,200
Tan Bien Chuan	1,878,800	1,878,800
Tang Martin Yue Nien	1,598,800	1,598,800

There was no change in any of the above-mentioned interests in the Company between the end of the financial year and 21 January 2013.

By virtue of Section 7 of the Companies Act, Cap. 50, Mr. Tien Sing Cheong and Mr. Tan Ka Huat are deemed to have interests in shares of the subsidiaries of the Company, all of which are wholly-owned.

Except as disclosed in this report, no director who held office at the end of the financial year had interests in shares, share options, warrants or debentures of the Company, or of related corporations, either at the beginning of the financial year, or at the end of the financial year.

Directors' contractual benefits

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

Options

During the financial period, there were:

(a) no options granted by the Company to any person to take up unissued shares in the Company, and

(b) no shares issued by virtue of any exercise of option to take up unissued shares of the Company.

Audit Committee

The Audit Committee (the "AC") comprises four members, all of whom are non-executive directors. The majority of the members including the Chairman, are independent. The members of the AC in office at the date of this report are:

Tan Bien Chuan	(Chairman and Independent Director)
Tang Martin Yue Nien	(Independent Director)
Colin Ng Teck Sim	(Independent Director)
Gan Chee Yen	(Non-Executive Director)

The AC met as necessary and carried out its functions in accordance with the Singapore Companies Act, Cap. 50, including the following:

- Reviews the audit plans of the internal and external auditors of the Company, and review the internal auditors' evaluation of the adequacy of the Company's system of internal accounting controls and the co-operation given by the Company's management to the external and internal auditors;
- Reviews the half yearly and annual financial statements and the auditors' report on the annual financial statements before submission to the board of directors;
- Reviews the effectiveness of the Company's material internal controls, including financial, operational and compliance controls via reviews carried out by the internal auditors;
- Meets with the external auditors, other committees and management in separate executive sessions to discuss any matters that these groups believe should be discussed privately with the AC;
- Reviews legal and regulatory matters that may have a material impact on the financial statements, related compliance policies and programmes and any reports received from regulators;
- Reviews the cost effectiveness and independence and objectivity of the external auditors;
- Reviews the nature and extent of non-audit services provided by the external auditors and their independence;
- Recommends to the board of directors the external auditors to be nominated, and reviews the scope and results of the audit;
- Reports actions and minutes of the AC to the board of directors with such recommendations as the AC considers appropriate; and
- Reviews interested persons transactions in accordance with the requirements of the Singapore Exchange Trading Limited (SGX-ST)'s Listing Manual.

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 the external auditors. The AC has also conducted a review of interested person transactions.

The AC convened three 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 information regarding the AC is disclosed in the Report on Corporate Governance.

Auditors

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

On behalf of the Board of Directors,

Tien Sing Cheong
Director

Tan Ka Huat
Director

Singapore
8 March 2013

Statement by Directors

We, Tien Sing Cheong and Tan Ka Huat, being two of the directors of CEI Contract Manufacturing Limited (the "Company"), do hereby state that, in the opinion of the directors,

(a) the accompanying balance sheets, consolidated statement of comprehensive income, statements of changes in equity, and consolidated cash flow statement together with notes thereto are drawn up so as to give a true and fair view of the state of affairs of the Group and of the Company as at 31 December 2012, and of the results of the business, changes in equity and cash flows of the Group and the changes in equity of the Company for the year ended on that date, and

(b) at the date of this statement there are reasonable grounds to believe that the Company will be able to pay its debts as and when they fall due.

On behalf of the Board of Directors,

Tien Sing Cheong
Director

Tan Ka Huat
Director

Singapore
8 March 2013

Independent Auditors' Report
For the financial year ended 31 December 2012

To the Members of CEI Contract Manufacturing Limited

Report on the financial statements

We have audited the accompanying financial statements of CEI Contract Manufacturing Limited (the "Company") and its subsidiaries (the "Group") set out on pages 18 to 56, which comprise the balance sheets of the Group and the Company as at 31 December 2012, the statements of changes in equity of the Group and the Company, the consolidated statement of comprehensive income and consolidated cash flow statement of the Group for the year then ended, and a summary of significant accounting policies and other explanatory information.

Management's responsibility for the financial statements

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

Auditor's responsibility

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

An audit involves performing procedures to obtain audit evidence about the amounts and disclosures in the financial statements. The procedures selected depend on the auditor's judgment, including the assessment of the risks of material misstatement of the financial statements, whether due to fraud or error. In making those risk assessments, the auditor considers internal control relevant to the entity's preparation of 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 state of affairs of the Group and of the Company as at 31 December 2012 and the results, changes in equity and cash flows of the Group and the changes in equity of the Company for the year ended on that date.

Report on other legal and regulatory requirements

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

Ernst & Young LLP

Ernst & Young LLP
Public Accountants and Certified Public Accountants
Singapore
8 March 2013

Consolidated Statement of Comprehensive Income for the year ended 31 December 2012

	Note	Group 2012 $	Group 2011 $
Revenue	4	106,529,735	104,760,195
Cost of sales		(84,289,331)	(83,277,789)
Gross profit		22,240,404	21,482,406
Other income		1,091,260	178,501
General and administrative costs		(14,337,047)	(12,948,841)
Selling and distribution costs		(3,665,726)	(3,788,122)
Finance costs		(402,061)	(445,717)
Impairment of goodwill		(955,000)	–
Share of results of associated company		186,300	93,500
Profit before taxation	5	4,158,130	4,571,727
Taxation	6	(594,499)	(1,053,385)
Profit after taxation		3,563,631	3,518,342
Other comprehensive income - net of tax			
Foreign currency translation		(334,740)	77,576
Fair value adjustment on available-for-sale financial assets		–	(128,040)
Total comprehensive income for the year attributable to owners of the Company		3,228,891	3,467,878
Earnings per share			
Basic	7	1.03 cents	1.01 cents
Diluted	7	1.03 cents	1.01cents

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

Balance Sheets as at 31 December 2012

	Note	Group 2012 $	Group 2011 $	Company 2012 $	Company 2011 $
ASSETS					
Non-current assets					
Property, plant and equipment	8	9,660,530	10,252,365	3,380,248	2,438,846
Goodwill	9	2,963,464	3,918,464	2,963,310	3,918,310
Investments in and advance to subsidiary companies	10	–	–	6,396,401	8,796,401
Investments in associated companies	11	1,017,440	865,940	481,900	481,900
Investment securities	12	–	1,408,460	–	1,408,460
Deferred tax assets	6	828,400	828,400	828,400	828,400
		14,469,834	17,273,629	14,050,259	17,872,317
Current assets					
Inventories	13	26,123,853	28,621,684	26,020,093	28,495,068
Trade receivables	14	19,125,706	19,932,947	18,970,845	19,675,206
Other receivables	15	419,855	221,540	299,989	92,537
Prepayments		375,983	484,804	322,843	436,370
Amounts due from subsidiary companies	16	–	–	1,479,580	2,767,323
Cash and cash equivalents	17	3,746,850	4,711,629	2,964,495	4,091,762
		49,792,247	53,972,604	50,057,845	55,558,266
Total assets		64,262,081	71,246,233	64,108,104	73,430,583
EQUITY AND LIABILITIES					
Current liabilities					
Trade payables and accruals	18	14,968,613	17,227,578	14,001,296	16,211,665
Amounts due to subsidiary companies	16	–	–	1,503,485	2,492,938
Bank borrowings	19	9,019,795	9,502,961	9,019,795	9,502,961
Provision for taxation		1,790,035	1,950,698	1,203,940	1,322,567
Advance billings to customers		1,470,846	2,043,379	1,470,846	2,043,379
Other liabilities	20	186,956	115,510	186,956	115,510
		27,436,245	30,840,126	27,386,318	31,689,020
Net current assets		22,356,002	23,132,478	22,671,527	23,869,246
Non-current liability					
Bank borrowings	19	5,500,000	9,100,000	5,500,000	9,100,000
		5,500,000	9,100,000	5,500,000	9,100,000
Total liabilities		32,936,245	39,940,126	32,886,318	40,789,020
Net assets		31,325,836	31,306,107	31,221,786	32,641,563
Equity attributable to owners of the Company					
Share capital	21	23,897,299	23,897,299	23,897,299	23,897,299
Treasury shares	21	(836,625)	(836,625)	(836,625)	(836,625)
Revenue reserves		8,725,802	8,179,273	8,161,112	9,388,829
Fair value reserve		–	192,060	–	192,060
Foreign currency translation reserve		(460,640)	(125,900)	–	–
Total equity		31,325,836	31,306,107	31,221,786	32,641,563
Total equity and liabilities		64,262,081	71,246,233	64,108,104	73,430,583

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

Statements of Changes in Equity for the year ended 31 December 2012

Group	Share capital (Note 21) $	Treasury shares (Note 21) $	Revenue reserves $	Fair value reserve $	Foreign currency translation reserve $	Total equity $
	Attributable to owners of the Company					
2012						
At 1 January 2012	23,897,299	(836,625)	8,179,273	192,060	(125,900)	31,306,107
Profit for the year	–	–	3,563,631	–	–	3,563,631
Other comprehensive income for the year	–	–	–	–	(334,740)	(334,740)
Total comprehensive income for the year	–	–	3,563,631	–	(334,740)	3,228,891
Dividends on ordinary shares (Note 22)	–	–	(3,017,102)	–	–	(3,017,102)
Reversal of the fair value changes of available-for-sale financial assets sold (Note 12)	–	–	–	(192,060)	–	(192,060)
At 31 December 2012	23,897,299	(836,625)	8,725,802	–	(460,640)	31,325,836
2011						
At 1 January 2011	23,897,299	(836,625)	9,259,418	320,100	(203,476)	32,436,716
Profit for the year	–	–	3,518,342	–	–	3,518,342
Other comprehensive income for the year	–	–	–	(128,040)	77,576	(50,464)
Total comprehensive income for the year	–	–	3,518,342	(128,040)	77,576	3,467,878
Dividends on ordinary shares (Note 22)	–	–	(4,598,487)	–	–	(4,598,487)
At 31 December 2011	23,897,299	(836,625)	8,179,273	192,060	(125,900)	31,306,107

Company	Share capital (Note 21) $	Treasury shares (Note 21) $	Revenue reserves $	Fair value reserve $	Total equity $
2012					
At 1 January 2012	23,897,299	(836,625)	9,388,829	192,060	32,641,563
Profit for the year	–	–	1,789,385	–	1,789,385
Other comprehensive income for the year	–	–	–	–	–
Dividends on ordinary shares (Note 22)	–	–	(3,017,102)	–	(3,017,102)
Reversal of the fair value changes of available-for-sale financial assets sold (Note 12)	–	–	–	(192,060)	(192,060)
At 31 December 2012	23,897,299	(836,625)	8,161,112	–	31,221,786
2011					
At 1 January 2011	23,897,299	(836,625)	10,041,284	320,100	33,422,058
Profit for the year	–	–	3,946,032	–	3,946,032
Other comprehensive income for the year	–	–	–	(128,040)	(128,040)
Dividends on ordinary shares (Note 22)	–	–	(4,598,487)	–	(4,598,487)
At 31 December 2011	23,897,299	(836,625)	9,388,829	192,060	32,641,563

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

Consolidated Cash Flow Statement for the year ended 31 December 2012

	2012 $	2011 $
Cash flows from operating activities		
Profit before taxation	4,158,130	4,571,727
Adjustments for:		
Depreciation of property, plant and equipment	2,291,071	2,481,078
Interest income	(3,260)	(7,721)
Interest expense	402,061	445,717
Impairment of goodwill	955,000	–
Gain on disposal of investment securities	(1,088,320)	–
Fair value (gain)/loss on forward contracts	(121,942)	339,400
Share of results of an associated company	(186,300)	(93,500)
Provision for inventory obsolescence	7,572	580,623
Operating cash flows before changes in working capital	6,414,012	8,317,324
Decrease in receivables and prepayments	831,950	1,248,085
Decrease/(increase) in inventories	2,490,259	(5,408,907)
Decrease in creditors	(2,760,053)	(2,567,603)
Cash flows from operations	6,976,168	1,588,899
Interest received	3,260	7,721
Income tax paid	(755,162)	(1,201,834)
Interest paid	(402,061)	(445,717)
Net cash flows from/(used in) operating activities	5,822,205	(50,931)
Cash flows from investing activities		
Purchase of property, plant and equipment	(2,026,236)	(1,022,207)
Dividend income from an associated company	34,800	30,740
Proceed from disposal of investment securities	2,304,720	–
Net cash flows from/(used in) investing activities	313,284	(991,467)
Cash flows from financing activities		
Dividends paid	(3,017,102)	(4,598,487)
Proceeds from loans and borrowings	–	16,000,000
Repayment of loans and borrowings	(4,083,166)	(8,587,351)
Net cash flows (used in)/from financing activities	(7,100,268)	2,814,162
Net (decrease)/increase in cash and cash equivalents	(964,779)	1,771,764
Cash and cash equivalents at beginning of the year	4,711,629	2,939,865
Cash and cash equivalents at end of the year (Note 17)	3,746,850	4,711,629

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

1. Corporate information

CEI Contract Manufacturing Limited (the "Company") is a limited liability company incorporated in Singapore and is listed on the Singapore Exchange Securities Trading Limited.

The registered office and principal place of business of the Company is located at 2 Ang Mo Kio Avenue 12, Singapore 569707.

The principal activities of the Company are those of contract manufacturing and design and manufacture of proprietary equipment. Contract manufacturing services include (a) assemblies of printed circuit board, box-build, prototype and equipment, and (b) value add engineering works such as circuit layout and functional design. The Company also designs and manufactures its own brand of proprietary equipment for the semiconductor industry. The principal activities of the subsidiary companies are set out in Note 10 to the financial statements.

There have been no significant changes in the nature of these activities during the year.

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 a historical cost basis except as disclosed in the accounting policies below.

The financial statements are presented in Singapore Dollars ("SGD" or "$") to the nearest dollar, unless otherwise indicated.

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 that are effective for annual periods beginning on or after 1 January 2012. 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 and interpretations that have been issued but not yet effective:

Description	*Effective for annual periods beginning on or after*
Amendments to FRS 1 *Presentation of Items of Other Comprehensive Income*	1 July 2012
Revised FRS 19 *Employee Benefits*	1 January 2013
FRS 113 *Fair Value Measurements*	1 January 2013
Amendments to FRS 107 *Disclosure – Offsetting Financial Assets and Financial Liabilities*	1 January 2013
Improvements to FRSs 2012	
- Amendment to FRS 1 *Presentation of Financial Statements*	1 January 2013
- Amendment to FRS 16 *Property, Plant and Equipment*	1 January 2013
- Amendment to FRS 32 *Financial Instruments: Presentation*	1 January 2013
Revised FRS 27 *Separate Financial Statements*	1 January 2014
Revised FRS 28 *Investments in Associates and Joint Ventures*	1 January 2014
FRS 110 *Consolidated Financial Statements*	1 January 2014
FRS 111 *Joint Arrangements*	1 January 2014
FRS 112 *Disclosure of Interests in Other Entities*	1 January 2014
Amendments to FRS 32 *Offsetting Financial Assets and Financial Liabilities*	1 January 2014

Except for the Amendments to FRS 1, FRS 111, Revised FRS 28 and FRS 112, the directors expect that the adoption of the other standards and interpretations above will have no material impact on the financial statements in the period of initial application. The nature of the impending changes in accounting policy on adoption of the Amendments to FRS 1, FRS 111, Revised FRS 28 and FRS 112 are described below.

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

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

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

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

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

FRS 111 J*oint Arrangements* and Revised FRS 28 *Investments in Associates and Joint Ventures*

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

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

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

The Group currently applies equity method for its associate and has no investment in joint venture company.

FRS 112 *Disclosure of Interests in Other Entities*

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

FRS 112 is a new and comprehensive standard on disclosure requirements for all forms of interests in other entities, including joint arrangements, associates, special purpose vehicles and other off balance sheet vehicles. FRS 112 requires an entity to disclose information that helps users of its financial statements to evaluate the nature and risks associated with its interests in other entities and the effects of those interests on its financial statements. As this is a disclosure standard, it will have no impact to the financial position and financial performance of the Group when implemented in 2014.

2.4 *Basis of consolidation and business combination*

(a) Basis of consolidation

Basis of consolidation from 1 January 2010

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 dividends 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.

Losses within a subsidiary are attributed to the non-controlling interest even if that results in a deficit balance.

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

2.4 Basis of consolidation and business combination (cont'd)

(a) Basis of consolidation (cont'd)

Basis of consolidation from 1 January 2010 (cont'd)

A change in the ownership interest of a subsidiary, without a loss of control, is accounted for as an equity transaction. If the Group loses control over a subsidiary, it:

– de-recognises the assets (including goodwill) and liabilities of the subsidiary at their carrying amounts at the date when control is lost;
– de-recognises the carrying amount of any non-controlling interest;
– de-recognises the cumulative translation differences recorded in equity;
– recognises the fair value of the consideration received;
– recognises the fair value of any investment retained;
– recognises any surplus or deficit in profit or loss;
– re-classifies the Group's share of components previously recognised in other comprehensive income to profit or loss or retained earnings, as appropriate.

Basis of consolidation prior to 1 January 2010

Certain of the above-mentioned requirements were applied on a prospective basis. The following differences, however, are carried forward in certain instances from the previous basis of consolidation:

– Acquisition of non-controlling interests, prior to 1 January 2010, were accounted for using the parent entity extension method, whereby, the difference between the consideration and the book value of the share of the net assets acquired were recognised in goodwill.
– Losses incurred by the Group were attributed to the non-controlling interest until the balance was reduced to nil. Any further losses were attributed to the Group, unless the non-controlling interest had a binding obligation to cover these. Losses prior to 1 January 2010 were not reallocated between non-controlling interest and the owners of the Company.
– Upon loss of control, the Group accounted for the investment retained at its proportionate share of net asset value at the date control was lost. The carrying value of such investments as at 1 January 2010 have not been restated.

(b) Business combinations

Business combinations from 1 January 2010

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.

When the Group acquires a business, it assesses the financial assets and liabilities assumed for appropriate classification and designation in accordance with the contractual terms, economic circumstances and pertinent conditions as at the acquisition date. This includes the separation of embedded derivatives in host contracts by the acquiree.

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 accordance with FRS 39 either in profit or loss or as a change to other comprehensive income. If the contingent consideration is classified as equity, it is not remeasured until it is finally settled within equity.

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.

The Group elects for each individual business combination, whether non-controlling interest in the acquiree (if any) is recognised on the acquisition date at fair value, or at the non-controlling interest's proportionate share of the acquiree's identifiable net assets.

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

2.4 *Basis of consolidation and business combination (cont'd)*

(b) Business combinations (cont'd)

Business combinations from 1 January 2010 (cont'd)

Any excess of the sum of the fair value of the consideration transferred in the business combination, the amount of non-controlling interest in the acquiree (if any), 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. The accounting policy for goodwill is set out in Note 2.7. 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.

Business combinations prior to 1 January 2010

In comparison to the above mentioned requirements, the following differences applied:

Business combinations are accounted for by applying the purchase method. Transaction costs directly attributable to the acquisition formed part of the acquisition costs. The non-controlling interest (formerly known as minority interest) was measured at the proportionate share of the acquiree's identifiable net assets.

Business combinations achieved in stages were accounted for as separate steps. Adjustments to those fair values relating to previously held interests are treated as a revaluation and recognised in equity. Any additional acquired share of interest did not affect previously recognised goodwill.

When the Group acquired a business, embedded derivatives separated from the host contract by the acquiree were not reassessed on acquisition unless the business combination resulted in a change in the terms of the contract that significantly modified the cash flows that otherwise would have been required under the contract.

Contingent consideration was recognised if, and only if, the Group had a present obligation, the economic outflow was more likely than not and a reliable estimate was determinable. Subsequent adjustments to the contingent consideration were recognised as part of goodwill.

2.5 *Functional and foreign currency*

The Group's consolidated financial statements are presented in Singapore 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) Foreign currency transactions

Transactions in foreign currencies are measured in the respective functional currencies of the Company and its subsidiary companies 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 closing rate of exchange ruling at the end of the reporting period. Non-monetary items that are measured in terms of historical cost in a foreign currency are translated using the exchange rates as at the dates of the initial transactions. Non-monetary items measured at fair value in a foreign currency are translated using the exchange rates at the date when the fair value was determined.

Exchange differences arising on the settlement of monetary items or on translating monetary items at the balance sheet date are recognised in the profit or loss except for exchange differences arising on monetary items that form part of the Group's net investment in foreign subsidiaries, which are recognised initially in other comprehensive income and accumulated as foreign currency translation reserve in equity. The foreign currency translation reserve is reclassified from equity to profit or loss of the Group on disposal of the foreign operation.

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

2.5 *Functional and foreign currency (cont'd)*

(b) Consolidated financial statements

For consolidation purpose, the assets and liabilities of foreign operations are translated into SGD 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.

In the case of a partial disposal without loss of control of a subsidiary that includes a foreign operation, the proportionate share of the cumulative amount of the exchange differences are re-attributed to non-controlling interest and are not recognised in profit or loss. For partial disposals of associates or jointly controlled entities that are foreign operations, the proportionate share of the accumulated exchange differences is reclassified to profit or loss.

2.6 *Property, plant and equipment*

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

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

Any accumulated depreciation as at the revaluation date is eliminated against the gross carrying amount of the asset and the net amount is restated to the revalued amount of the asset. The revaluation surplus included in the asset revaluation reserve in respect of an asset is transferred directly to retained earnings on retirement or disposal of the asset.

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

Leasehold land	-	Over lease period of 43 years (until year 2023)
Leasehold buildings	-	Shorter of lease period or 25 years
Plant and machinery	-	3 - 5 years
Office furniture, fittings and equipment	-	5 years
Motor vehicles	-	5 - 6 years
Computer equipment	-	2 years
Renovation	-	5 years

Assets under construction included in plant and equipment are not depreciated as these assets are not yet available for use.

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. Summary of significant accounting policies (cont'd)

2.7 *Goodwill*

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 each of 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 unit to which goodwill has been allocated are tested for impairment annually and whenever there is an indication that the cash-generating unit may be impaired, by comparing the carrying amount of the cash-generating unit, including the allocated goodwill, with the recoverable amount of the cash-generating unit. Where the recoverable amount of the cash-generating unit is less than the carrying amount, an impairment loss is recognised in the profit or loss. Impairment losses recognised for goodwill are not reversed in subsequent periods.

Where goodwill forms part of a cash-generating unit and part of the operation within that cash-generating unit is disposed off, the goodwill associated with the operation disposed off is included in the carrying amount of the operation when determining the gain or loss on disposal of the operation. Goodwill disposed off in this circumstance is measured based on the relative fair values of the operations disposed off and the portion of the cash-generating unit retained.

2.8 *Impairment of non-financial assets*

The Group assesses at each reporting date whether there is an indication that an asset may be impaired. If any indication exists, or when an annual impairment testing 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 fair value less costs to sell and its value in use and is determined for an individual asset, unless the asset does not generate cash inflows that are largely independent of those from other assets or groups of assets. Where the carrying amount of an asset or cash-generating unit exceeds its recoverable amount, the asset is considered impaired and is written down to its recoverable amount. In assessing value in use, the estimated future cash flows expected to be generated by the asset are discounted to their present value using a pre-tax discount rate that reflects current market assessments of the time value of money and the risks specific to the asset. In determining fair value less costs to sell, recent market transactions are taken into account, if available. If no such transactions can be identified, an appropriate valuation model is used. These calculations are corroborated by valuation multiples or other available fair value indicators.

The Group bases its impairment calculation on detailed budgets and forecast calculations which are prepared separately for each of the Group's cash-generating units to which the individual assets are allocated. These budgets and forecast calculations are generally covering a period of five years. For longer periods, a long-term growth rate is calculated and applied to project future cash flows after the fifth year.

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

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

2.8 *Impairment of non-financial assets (cont'd)*

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

2.9 *Subsidiary companies*

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

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

2.10 *Associated companies*

An associate is an entity, not being a subsidiary or a joint venture, in which the Group has significant influence. An associate is equity accounted for from the date the Group obtains significant influence until the date the Group ceases to have significant influence over the associate.

The Group's investments in associates are accounted for using the equity method. Under the equity method, the investment in associates is carried in the balance sheet at cost plus post-acquisition changes in the Group's share of net assets of the associates. Goodwill relating to associates is included in the carrying amount of the investment and is neither amortised nor tested individually for impairment. Any excess of the Group's share of the net fair value of the associate's identifiable assets, liabilities and contingent liabilities over the cost of the investment is included as income in the determination of the Group's share of results of the associate in the period in which the investment is acquired.

The profit or loss reflects the share of the results of operations of the associates. Where there has been a change recognised in other comprehensive income by the associates, the Group recognises its share of such changes in other comprehensive income. Unrealised gains and losses resulting from transactions between the Group and the associate are eliminated to the extent of the interest in the associates.

The Group's share of the profit or loss of its associates is the profit attributable to equity holders of the associate and, therefore is the profit or loss after tax and non-controlling interests in the subsidiaries of associates.

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

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 its associates. The Group determines at the end of each reporting period whether there is any objective evidence that the investment in the associate is impaired. If this is the case, the Group calculates the amount of impairment as the difference between the recoverable amount of the associate and its carrying value and recognises the amount in profit or loss.

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

Upon loss of significant influence over the associate, the Group measures and recognises any retained investment at its fair value. Any difference between the carrying amount of the associate upon loss of significant influence and the fair value of the aggregate of the retained investment and proceeds from disposal is recognised in profit or loss.

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

2.11 *Financial assets*

Initial recognition and measurement

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

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

Subsequent measurement

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

(a) Financial assets at fair value through profit or loss

Financial assets at fair value through profit or loss include financial assets held for trading and financial assets designated upon initial recognition at fair value through profit or loss. Financial assets are classified as held for trading if they are acquired for the purpose of selling or repurchasing in the near term. This category includes derivative financial instruments entered into by the Group that are not designated as hedging instruments in hedge relationships as defined by FRS 39. Derivatives, including separated embedded derivatives are also classified as held for trading unless they are designated as effective hedging instruments.

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

Subsequent to initial recognition, financial assets at fair value through profit or loss are measured at fair value. Any gains or losses arising from changes in fair value of the financial assets are recognised in profit or loss. Net gains or net losses on financial assets at fair value through profit or loss include exchange differences, interest and dividend income.

Derivatives embedded in host contracts are accounted for as separate derivatives and recorded at fair value if their economic characteristics and risks are not closely related to those of the host contracts and the host contracts are not held for trading or designated at fair value through profit or loss. These embedded derivatives are measured at fair value with changes in fair value recognised in profit or loss. Reassessment only occurs if there is a change in the terms of the contract that significantly modifies the cash flows that would otherwise be required.

(b) 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.

(c) Held-to-maturity investments

Non-derivative financial assets with fixed or determinable payments and fixed maturity are classified as held-to-maturity when the Group has the positive intention and ability to hold the investment to maturity. Subsequent to initial recognition, held-to-maturity investments are measured at amortised cost using the effective interest method, less impairment. Gains and losses are recognised in profit or loss when the held-to-maturity investments are derecognised or impaired, and through the amortisation process.

(d) Available-for-sale financial assets

Available-for-sale financial assets include equity and debt securities. Equity investments classified as available-for sale are those, which are neither classified as held for trading nor designated at fair value through profit or loss. Debt securities in this category are those which are intended to be held for an indefinite period of time and which may be sold in response to needs for liquidity or in response to changes in the market conditions.

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

2.11 *Financial assets (cont'd)*

(d) Available-for-sale financial assets (cont'd)

After initial recognition, available-for-sale financial assets are subsequently measured at fair value. Any gains or losses from changes in fair value of the financial assets are recognised in other comprehensive income, except that impairment losses, foreign exchange gains and losses on monetary instruments and interest calculated using the effective interest method are recognised in profit or loss. The cumulative gain or loss previously recognised in other comprehensive income is reclassified from equity to profit or loss as a reclassification adjustment when the financial asset is de-recognised.

Investments in equity instruments whose fair value cannot be reliably measured are measured at cost less impairment loss.

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 had been recognised in other comprehensive income is recognised in profit or loss.

Regular way purchase or sale of a financial asset

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

2.12 *Impairment of financial assets*

The Group assesses at each balance sheet date whether there is any objective evidence that a financial asset or group of financial assets 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 the impaired financial asset is reduced directly or if an amount was charged to the allowance account, the amounts charged to the allowance account are written off against the carrying value of the financial asset.

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

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

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

2.12 *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 has been incurred, the amount of the loss is measured as the difference between the asset's carrying amount and the present value of estimated future cash flows discounted at the current market rate of return for a similar financial asset. Such impairment losses are not reversed in subsequent periods.

(c) Available-for-sale financial assets

In the case of equity investments classified as available-for-sale, objective evidence of impairment include (i) significant financial difficulty of the issuer or obligor, (ii) information about significant changes with an adverse effect that have taken place in the technological, market, economic or legal environment in which the issuer operates, and indicates that the cost of the investment in equity instrument may not be recovered; and (iii) a significant or prolonged decline in the fair value of the investment below its costs. 'Significant' is to be evaluated against the original cost of the investment and 'prolonged' against the period in which the fair value has been below its original cost.

If an available-for-sale financial asset is impaired, an amount comprising the difference between its acquisition cost (net of any principal repayment and amortisation) and its current fair value, less any impairment loss previously recognised in profit or loss, is transferred from other comprehensive income and recognised in profit or loss. Reversals of impairment losses in respect of equity instruments are not recognised in profit or loss; increase in their fair value after impairment are recognised directly in other comprehensive income.

In the case of debt instruments classified as available-for-sale, impairment is assessed based on the same criteria as financial assets carried at amortised cost. However, the amount recorded for impairment is the cumulative loss measured as the difference between the amortised cost and the current fair value, less any impairment loss on that investment previously recognised in profit or loss. Future interest income continues to be accrued based on the reduced carrying amount of the asset, using the rate of interest used to discount the future cash flows for the purpose of measuring the impairment loss. The interest income is recorded as part of finance income. If, in a subsequent year, the fair value of a debt instrument increases and the increases can be objectively related to an event occurring after the impairment loss was recognised in profit or loss, the impairment loss is reversed in profit or loss.

2.13 *Cash and cash equivalents*

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

2.14 *Inventories*

Inventories are stated at the lower of costs (determined principally on standard costs which approximate the actual costs) and net realisable value.

In arriving at net realisable value, the allowance is made for all obsolete and slow-moving items.

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

Cost of finished goods and work-in-progress include cost of direct materials, labour and an appropriate portion of fixed and variable factory overheads.

2.15 *Government grants*

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

2.16 *Financial liabilities*

Initial recognition and measurement

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

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

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

2.16 *Financial liabilities (cont'd)*

Subsequent measurement

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

(a) Financial liabilities at fair value through profit or loss

Financial liabilities at fair value through profit or loss includes financial liabilities held for trading and financial liabilities designated upon initial recognition at fair value through profit or loss. Financial liabilities are classified as held for trading if they are acquired for the purpose of selling in the near term. This category includes derivative financial instruments entered into by the Group that are not designated as hedging instruments in hedge relationships. Separated embedded derivatives are also classified as held for trading unless they are designated as effective hedging instruments.

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

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

(b) Other financial liabilities

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

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.

2.17 *Provisions*

General

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

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

Warranty provisions

Provisions for warranty-related costs are recognised when the product is sold or service provided. Initial recognition is based on historical experience. The initial estimate of warranty-related costs is revised annually.

2.18 *Financial guarantee*

A financial guarantee contract is a contract that requires the issuer to make specified payments to reimburse the holder for a loss it incurs because a specified debtor fails to make payment when due in accordance with the terms of a debt instrument.

Financial guarantees are recognised initially as a liability at fair value, adjusted for transaction costs that are directly attributable to the issuance of the guarantee. Subsequent to initial recognition, financial guarantees are recognised as income in profit or loss over the period of the guarantee. If it is probable that the liability will be higher than the amount initially recognised less amortisation, the liability is recorded at the higher amount with the difference charged to profit or loss.

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

2.19 *Borrowing costs*

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

2.20 *Employee benefits*

(a) Defined contribution plans

The Group participates in the national pension schemes as defined by the laws of the countries in which it has operations. In particular, the Singapore companies in the Group make contributions to the Central Provident Fund scheme in Singapore, a defined contribution pension scheme. Contributions to national pension schemes are recognised as an expense in the period in which the related service is performed.

(b) Employee leave entitlement plans

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

2.21 *Leases*

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

For arrangements entered into prior to 1 January 2005, the date of inception is deemed to be 1 January 2005 in accordance with the transitional requirements of INT FRS 104.

As lessee

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

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

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

2.22 *Revenue recognition*

Revenue is recognised to the extent that it is probable that the economic benefits will flow to the Group and the revenue can be reliably measured. The following specific recognition criteria must also be met before the revenue is recognised.

(a) Sales of goods

Revenue is recognised upon the transfer of significant risks and rewards of ownership of the goods to the customer, which generally coincides with delivery and acceptance of the goods sold. Revenue is not recognised to the extent where there are significant uncertainties regarding the recovery of the consideration due, associated costs or the possible return of goods.

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

2.22 *Revenue recognition (cont'd)*

(b) Interest income

Interest income is recognised using the effective interest method.

(c) Dividend income

Dividend income is recognised when the Group's right to receive payment is established.

2.23 *Taxes*

(a) Current income tax

Current income tax assets and liabilities for the current and prior periods are measured at the amount expected to be recovered from or paid to the taxation authorities. The tax rates and tax laws used to compute the amount are those that are enacted or substantively enacted at the end of the reporting period, in the countries 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 interpretation and establishes provisions where appropriate.

(b) Deferred tax

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

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

– Where the deferred tax liability arises from the initial recognition of goodwill or of an asset or liability in a transaction that is not a business combination and, at the time of the transaction, affects neither the accounting profit nor taxable profit or loss; and

– In respect of taxable temporary differences associated with investments in subsidiaries, associates and interests in joint ventures, where the timing of the reversal of the temporary differences can be controlled and it is probable that the temporary differences will not reverse in the foreseeable future.

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.

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

2.23 *Taxes (cont'd)*

(b) Deferred tax (cont'd)

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

Tax benefits acquired as part of a business combination, but not satisfying the criteria for separate recognition at that date, would be recognised subsequently if new information about facts and circumstances changed. The adjustment would either be treated as a reduction to goodwill (as long as it does not exceed goodwill) if it incurred during the measurement period or in profit or loss.

(c) Sales tax

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

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

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

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

2.24 *Segment reporting*

For management purposes, the Group is monitored by geographical segments. Management reviews regularly the segment results in order to assess the segment performance and is a distinguishable component of the Group that is engaged in providing goods or services within a particular economic environment and that is subject to risks and returns that are different from those of components operating in other economic environment.

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 *Treasury shares*

The Group's own equity instruments, which are reacquired (treasury shares) are recognised at cost and deducted from equity. No gain or loss is recognised in profit or loss on the purchase, sale, issue or cancellation of the Group's own equity instruments. Any difference between the carrying amount of treasury shares and the consideration received, if reissued, is recognised directly in equity. Voting rights related to treasury shares are nullified for the Group and no dividends are allocated to them respectively.

2.27 *Contingencies*

A contingent liability is:

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

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

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

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

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

Contingent liabilities and assets are not recognised on the balance sheet of the Group, except for contingent liabilities assumed in a business combination that are present obligations and which the fair values can be reliably determined.

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

2.28 *Related parties*

A related party is defined as follows:

(a) A person or a close member of that person's family is related to the Group and Company if that person:

(i) has control or joint control over the Company;

(ii) has significant influence over the Company; or

(iii) is a member of the key management personnel of the Group or Company or of a parent of the Company.

(b) An entity is related to the Group and the Company if any of the following conditions applies :

(i) the entity and the Company are members of the same group (which means that each parent, subsidiary and fellow subsidiary is related to the others).

(ii) one entity is an associate or joint venture of the other entity (or an associate or joint venture of a member of a group of which the other entity is a member).

(iii) both entities are joint ventures of the same third party.

(iv) one entity is a joint venture of a third entity and the other entity is an associate of the third entity.

(v) the entity is a post-employment benefit plan for the benefit of employees of either the Company or an entity related to the Company. If the Company is itself such a plan, the sponsoring employers are also related to the Company.

(vi) the entity is controlled or jointly controlled by a person identified in (a).

(vii) a person identified in (a) (i) has significant influence over the entity or is a member of the key management personnel of the entity (or of a parent of the entity).

3. Significant accounting estimates and judgements

The preparation of the Group's financial statements requires management to make judgements, estimates and assumptions that affect the reported amounts of assets, liabilities, income and expenses. Uncertainty about these assumptions and estimates could result in outcomes that could require a material adjustment to the carrying amount of the asset or liability affected in the future.

3.1 *Key sources of estimation uncertainty*

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

(a) Impairment of property, plant and equipment

The carrying values of property, plant and equipment are reviewed for impairment in accordance with FRS 36 Impairment of Assets. As at 31 December 2012, the carrying amount of property, plant and equipment held by CEI International Investments (Vietnam) Limited amounted to $1,287,993 (2011: $1,976,302).

In the determination of the recoverable value of the above property, plant and equipment, the Group has ascertained the recoverable value based on fair value approach. Based on the recoverable value ascertained, there is no impairment provided. More details are included in Note 8(a).

3. Significant accounting estimates and judgements (cont'd)

3.1 *Key sources of estimation uncertainty (cont'd)*

(b) Depreciation of plant and machinery

The costs of plant and machinery used for contract manufacturing are depreciated on a straight-line basis over their estimated useful lives. Management estimates the useful lives of these plant and machinery to be within 3 to 5 years. The carrying amount of the Group's plant and machinery as at 31 December 2012 was $3,583,448 (2011: $2,967,153). Changes in the expected level of usage and technological developments could impact the economic useful lives and the residual values of these assets, therefore future depreciation charges could be revised.

(c) Impairment of goodwill

The Group assesses whether there are any indicators of impairment for all non-financial assets at each reporting date. Goodwill is tested for impairment annually and at other times when such indicators exist. Other non-financial assets are tested for impairment when there are indicators that the carrying amounts may not be recoverable.

When value in use calculations are undertaken, management must estimate the expected future cash flows from the asset or cash-generating unit and choose a suitable discount rate in order to calculate the present value of those cash flows. Further details of the key assumptions applied in the impairment assessment of goodwill are set out in Note 9.

d) Impairment of investment in associated companies

The carrying values of investments in associated companies are reviewed for impairment in accordance with FRS 28 *Investments in Associates*. As at 31 December 2012, the Group's carrying amount of investment in Santec Corporation Pte Ltd and TeleMoney Asia Pte Ltd was $1,017,440 and $Nil (2011: $865,940 and $Nil) respectively.

More details are included in Note 11.

(e) Impairment of investments in subsidiary companies

The carrying values of investments in subsidiary companies are reviewed for impairment in accordance with FRS 36 *Impairment of Assets*. As at 31 December 2012, the carrying amount of investment in CEI International Investment Pte Ltd was $1,687,419 (2011: $1,687,419).

The recoverable value of the investment is largely dependent on the recoverable value of the underlying assets of CEI International Investments (Vietnam) Limited whose underlying assets are assessed in Note 3.1 (a) above.

(f) Inventory obsolescence and decline in net realisable value

An impairment review is made periodically on inventory for excess inventory, obsolescence and declines in net realisable value below cost and an allowance is recorded against the inventory balance for any such declines. These reviews require management to estimate future demand for the products. Possible changes in these estimates could result in revisions to the valuation of inventory. More details are disclosed in Note 13 to the financial statements.

(g) Impairment of loans and receivables including advances to subsidiary companies

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

Where there is objective evidence of impairment, the amount and timing of future cash flows are estimated based on historical loss experience for assets with similar credit risk characteristics. The carrying amount of the Group's loans and receivable at the end of the reporting period is disclosed in Note 29(b).

3.2 *Judgements made in applying accounting policies*

In the process of applying the Group's accounting policies, management has made the following judgements, apart from those involving estimations, which has the most significant effect on the amounts recognised in the financial statements.

3. Significant accounting estimates and judgements (cont'd)

3.2 *Judgements made in applying accounting policies (cont'd)*

(a) Allocation of goodwill to cash generating units

Management did not allocate the goodwill acquired in a business combination of $3.9 million (Note 9) to the individual cash generating units as management is of the view that there is no consistent and reasonable basis to allocate the synergistic and likely benefit that will flow to the individual cash-generating units. Thus, for the purpose of impairment testing of goodwill, management has allocated such goodwill to a group of cash generating units that comprises two individual cash-generating units. Management has determined the expected benefit from the synergies of the business combination in applying judgement of allocating such goodwill to the group of cash-generating units. The expected benefit from the synergies of the business combination determined by management pertains to the ability of the acquired business to develop operations of the Group to provide a total solutions service to its existing and new customers.

(b) Provision for taxation

The Group has exposure to income taxes in a few jurisdictions. 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 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 amounts of the Group's deferred tax assets/liabilities and provision for current taxation are disclosed in the balance sheet.

(c) Determination of functional currency

The Group measures foreign currency transactions in the respective functional currencies of the Company and its subsidiaries. In determining the functional currencies of the entities in the Group, judgement is required to determine the currency that mainly influences sales prices for goods and services and of the country whose competitive forces and regulations mainly determines the sales prices of its goods and services. The functional currencies of the entities in the Group are determined based on management's assessment of the economic environment in which the entities operate and the entities' process of determining sales prices.

4. Revenue

Revenue represents the net invoiced value of goods sold.

5. Profit before taxation

This is stated after charging/(crediting) the following:

	Group	
	2012	**2011**
	$	**$**
Audit fees paid to		
- Auditors of the Company	126,000	126,000
- Other auditors	17,776	15,300
Non audit fees paid to		
- Auditors of the Company	23,100	17,500
Depreciation of property, plant and equipment	2,291,071	2,481,078
Impairment of goodwill	955,000	–
Provision for inventory obsolescence	7,572	580,823
Interest income on fixed deposits	(3,260)	(7,721)
Foreign exchange loss/(gain)	260,687	(249,122)
Operating lease expenses	90,661	91,521
Staff costs		
- Central Provident Fund contributions	1,254,566	1,113,715
- Salaries, wages, bonuses and other costs	12,945,533	11,661,314
Fair value (gain)/loss on derivatives	(121,942)	339,400
Finance costs – interest on bank borrowings	402,061	445,717
Gain on disposal of investment securities	1,088,320	–

6. Taxation

(a) Major components of income tax expense

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

	Group	
	2012	2011
	$	$
Current taxation – current year	(912,955)	(1,347,285)
Current taxation – over provision in respect of prior years	318,456	–
Deferred taxation – current year	–	293,900
Income tax expense recognised in profit or loss	(594,499)	(1,053,385)

(b) Relationship between tax expense and accounting profit

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

	Group	
	2012	2011
	$	$
Profit before tax	4,158,130	4,571,727
Income tax at statutory tax rate of 17%	(706,882)	(777,194)
Adjustments:		
Expense not deductible for tax purposes	(369,921)	(235,420)
Income not subject to tax	31,841	26,993
Tax effect of partial tax exemption	146,193	25,925
Over provision of current taxation in respect of prior years	318,456	–
Others	(14,186)	(93,689)
	(594,499)	(1,053,385)

The above reconciliation is prepared by aggregating separate reconciliation for each national jurisdiction.

The Group has tax losses of approximately $1,781,000 (2011: $1,223,000) attributable to the subsidiary company in Vietnam, which are available for offset against future profits of the subsidiary company arising within 5 years from the year the losses were incurred. No deferred tax asset is recognised due to uncertainty of recovery. The use of these tax losses is subject to the agreement of the tax authorities and compliance with certain provisions of the tax legislation in Vietnam.

(c) Deferred income tax

Deferred income tax as at 31 December relates to the following:

	Group		Company	
	2012	2011	2012	2011
	$	$	$	$
Deferred tax assets				
Provision for inventory obsolescence	785,560	785,560	785,560	785,560
Other provisions	141,461	119,310	141,461	119,310
Gross deferred tax assets	927,021	904,870	927,021	904,870
Deferred tax liability				
Excess of net book value over tax written down value of property, plant and equipment	(98,621)	(76,470)	(98,621)	(76,470)
Net deferred tax assets	828,400	828,400	828,400	828,400

(d) Tax consequences of proposed dividends

There are no income tax consequences attached to the dividends to the shareholders proposed by the Company but not recognised as a liability in the financial statements (Note 22).

7. Earnings per share

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

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

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

	2012 $	2011 $
Net profit attributable to ordinary shareholders for basic and diluted earnings per share	3,563,631	3,518,342
	No. of Shares	**No. of Shares**
Weighted average number of ordinary shares for basic earnings per share computation*	346,793,907	346,793,907
Weighted average number of ordinary shares adjusted for the effects of dilution*	346,793,907	346,793,907

* The weighted average number of shares takes into account the weighted average effect of changes in treasury shares transactions. There has been no treasury shares transaction in FY2012 and FY2011.

8. Property, plant and equipment

Group	Leasehold land and buildings $	Plant and machinery $	Motor vehicles $	Office furniture, fitting and equipment $	Computer equipment $	Renovation $	Total $
Cost							
As at 1 January 2011	11,820,190	12,404,071	633,204	541,179	1,653,655	824,799	27,877,098
Additions	12,368	762,867	–	61,618	167,094	18,260	1,022,207
Disposal/write-off	–	–	–	(7,026)	(59,465)	–	(66,491)
As at 31 December 2011 and 1 January 2012	11,832,558	13,166,938	633,204	595,771	1,761,284	843,059	28,832,814
Additions	–	1,605,741	118,222	29,854	253,721	18,698	2,026,236
Disposal/write-off	–	(7,145)	(50,669)	(2,328)	(12,240)	–	(72,382)
Exchange differences	(893,223)	(296,091)	(469)	31,221	(46,818)	–	(1,205,380)
As at 31 December 2012	10,939,335	14,469,443	700,288	654,518	1,955,947	861,757	29,581,288
Accumulated depreciation							
As at 1 January 2011	4,429,909	8,809,928	379,421	402,923	1,542,635	601,046	16,165,862
Depreciation charge for the year	690,180	1,389,857	99,461	57,428	97,926	146,226	2,481,078
Disposal/write-off	–	–	–	(7,026)	(59,465)	–	(66,491)
As at 31 December 2011 and 1 January 2012	5,120,089	10,199,785	478,882	453,325	1,581,096	747,272	18,580,449
Depreciation charge for the year	691,888	1,257,885	91,731	57,988	160,013	31,566	2,291,071
Disposal/write-off	–	(7,150)	(50,668)	(2,327)	(12,237)	–	(72,382)
Exchange differences	(291,616)	(564,525)	(469)	30,589	(52,359)	–	(878,380)
As at 31 December 2012	5,520,361	10,885,995	519,476	539,575	1,676,513	778,838	19,920,758
Net carrying amount							
As at 31 December 2012	5,418,974	3,583,448	180,812	114,943	279,434	82,919	9,660,530
As at 31 December 2011	6,712,469	2,967,153	154,322	142,446	180,188	95,787	10,252,365

8. Property, plant and equipment (cont'd)

Company	Leasehold land and buildings $	Plant and machinery $	Motor vehicles $	Office furniture, fitting and equipment $	Computer equipment $	Renovation $	Total $
Cost							
As at 1 January 2011	1,884,704	1,837,276	489,872	397,636	1,422,073	917,369	6,948,930
Additions	–	30,580	–	57,375	137,220	18,260	243,435
Disposal/write-off	–	–	–	(5,126)	(51,462)	–	(56,588)
As at 31 December 2011 and 1 January 2012	1,884,704	1,867,856	489,872	449,885	1,507,831	935,629	7,135,777
Additions	–	1,231,670	118,222	24,544	221,477	18,698	1,614,611
Disposal/write-off	–	–	(50,669)	(2,328)	(7,005)	–	(60,002)
As at 31 December 2012	1,884,704	3,099,526	557,425	472,101	1,722,303	954,327	8,690,386
Accumulated depreciation							
As at 1 January 2011	37,950	1,439,413	236,899	277,645	1,318,438	729,509	4,039,854
Depreciation charge for the year	151,801	179,590	99,133	49,191	87,724	146,226	713,665
Disposal/write-off	–	–	–	(5,126)	(51,462)	–	(56,588)
As at 31 December 2011 and 1 January 2012	189,751	1,619,003	336,032	321,710	1,354,700	875,735	4,696,931
Depreciation charge for the year	151,789	209,327	91,511	53,501	135,510	31,566	673,204
Disposal/write-off	–	–	(50,668)	(2,327)	(7,002)	–	(59,997)
As at 31 December 2012	341,540	1,828,330	376,875	372,884	1,483,208	907,301	5,310,138
Net carrying amount							
As at 31 December 2012	1,543,164	1,271,196	180,550	99,217	239,095	47,026	3,380,248
As at 31 December 2011	1,694,953	248,853	153,840	128,175	153,131	59,894	2,438,846

(a) Property, plant and equipment held by CEI International Investments (Vietnam) Limited

The recoverable value of the property held by CEI International Investments (Vietnam) Limited is determined based on fair value approach. Based on valuation by independent valuer, Savills Vietnam Co. Ltd, the fair value of the property held by CEI International Investments (Vietnam) Limited is determined to be approximately $1,955,200 by reference to open market values on an existing use basis. The date of valuation is 21 December 2012. The carrying value of the property, plant and equipment is $1,287,993 (2011: $1,967,302).

No impairment loss is required as the estimated recoverable value is in excess of its carrying value.

In 2011, the estimated recoverable amount of $3,731,000 was determined based on "value in use" approach using discounted cash flow prepared by management. The management used growth rate of 10% and 13% pre-tax discount rate per annum.

8. Property, plant and equipment (cont'd)

(b) Details of leasehold land and buildings held through subsidiary companies are as follows:

Location	Description	Tenure	Land Area (sqm)
Batamindo Industrial Park, Batam, Indonesia	Detached single-storey factory with mezzanine floor	21 April 1998 to 18 December 2019	5,788
Batamindo Industrial Park, Batam, Indonesia	Detached single-storey factory with mezzanine floor	12 November 2008 to 18 December 2019	5,793
Vietnam Singapore Industrial Park, Binh Duong, Vietnam	Detached single-storey factory with mezzanine floor	6 March 2002 to 11 February 2046	5,000
Vietnam Singapore Industrial Park, Binh Duong, Vietnam	Land parcel	7 December 2004 to 11 February 2046	4,500
Ang Mo Kio Industrial Park II, Singapore (this is held by the parent company)	Detached three-storey factory building	1 March 2004 to 28 February 2023	2,617

9. Goodwill

	Group		Company	
	2012	**2011**	**2012**	**2011**
	$	**$**	**$**	**$**
Goodwill, at cost	3,918,464	3,918,464	3,918,310	3,918,310
Impairment of goodwill	(955,000)	–	(955,000)	–
	2,963,464	3,918,464	2,963,310	3,918,310

Impairment testing of goodwill

The goodwill arose from the business combination in year 2008 and was allocated to the Company's group of cash-generating units. The recoverable value of the group of cash-generating units has been determined based on a value in use calculation using cash flow projections based on financial budgets approved by the Board of Directors covering a five-year period.

The pre-tax discount rate applied to the cash flow projections is 11% (2011: 11%) per annum. The management has also adopted forecasted negative 1% growth rate for year 2013 (2011: 5%), 5% (2011: 10%) for year 2014, 10% (2011: 10%) from 2015 to 2017 and Nil (2011: Nil) growth rate for the terminal value computation from 2017 to perpetuity. The management expects uncertainty in the short-term due to the weak global economy. The forecasts estimated growth rate does not exceed the average long-term growth rate for the relevant market.

Impairment loss recognised

During the financial year, an impairment loss was recognised to write-down the carrying amount of the goodwill. The impairment loss of $955,000 (2011: Nil) has been recognised in the profit or loss.

10. Investments in and advances to subsidiary companies

	Company 2012 $	Company 2011 $
Unquoted shares, at cost	5,493,376	5,493,376
Impairment losses	(806,922)	(806,922)
	4,686,454	4,686,454
Advances to a subsidiary company	4,109,947	4,109,947
Impairment losses	(2,400,000)	–
	1,709,947	4,109,947
	6,396,401	8,796,401

The advances were mainly made to CEI International Investments (Vietnam) Limited (CEI-Vietnam). The advances are non-trade related, unsecured, interest-free and repayable only when the cash flows of the subsidiary company permits. The advances are effectively a quasi-equity loans to the subsidiary company.

Details of the subsidiary companies as at 31 December are:

Name of company (Country of incorporation)	Principal activities (Place of business)	Company Cost 2012 $	Company Cost 2011 $	Percentage of equity held 2012 %	Percentage of equity held 2011 %
Subsidiary companies Held by the Company					
CEI International Investments Pte Ltd [(1)] (Singapore)	Investment holding (Singapore)	2,494,341	2,494,341	100	100
PT Surya Teknologi Batam [(2)] (Indonesia)	Printed circuit board assembly and contract manufacturing (Indonesia)	2,999,035	2,999,035	100	100
		5,493,376	5,493,376		
Subsidiary companies Held through subsidiary company					
CEI International Investments (VN) Ltd [(3)] (Vietnam)	Printed circuit board assembly and contract manufacturing (Vietnam)			100	100
Clean Energy Innovation Pte Ltd [(4)]	Invest in technology, and to manufacture and distribute related products of the investment (Singapore)			100	100

(1) Audited by Ernst & Young LLP, Singapore.
(2) Audited by JAS & Rekan, Drs Sukimto Sjamsuli.
(3) Audited by member firm of Ernst & Young Global in Vietnam.
(4) This subsidiary is dormant from the date of incorporation.

11. Investments in associated companies

	Group 2012 $	Group 2011 $	Company 2012 $	Company 2011 $
Unquoted shares, at cost	608,000	785,250	608,000	785,250
Share of post-acquisition reserves	601,080	414,780	–	–
Impairment losses	(100,000)	(277,250)	(100,000)	(277,250)
Others	(91,640)	(56,840)	(26,100)	(26,100)
	1,017,440	865,940	481,900	481,900

Details of the associated companies as at 31 December are:

Name of company (Country of incorporation)	Principal activities (Place of business)	Company Cost 2012 $	Company Cost 2011 $	Percentage of equity held 2012 %	Percentage of equity held 2011 %
Associated companies Held by the Company					
Santec Corporation Pte Ltd [1] (Singapore)	Precision engineering, stamping and tool and die making (People's Republic of China)	608,000	608,000	25	25
TeleMoney Asia Pte Ltd [2] (Singapore) - Liquidated on 13 Oct 2012.	Provision of online and mobile payment services (Vietnam)	–	177,250	–	42.83
		608,000	785,250		

[1] Audited by Diong T.P. & Co.
[2] Audited by Chan-Soh & Co.

(a) Impairment assessment

(i) Investments in Santec Corporation Pte Ltd

The allowance for impairment is $100,000 as at 31 December 2012 and 2011. There was no further impairment loss provided during the year.

(ii) Investments in TeleMoney Asia Pte Ltd

TeleMoney Asia Pte Ltd was liquidated on 13 October 2012.

(b) The summarised financial information of Santec Corporation Pte Ltd not adjusted for the proportion of ownership interest held by the Group is as follows:

	2012 $'000	2011 $'000
Assets and liabilities:		
Total assets	5,941	6,348
Total liabilities	(1,214)	(2,141)
Results:		
Revenue	8,017	9,731
Profit for the year	870	447

12. Investment securities

	Group and Company 2012 $	2011 $
Available-for-sale investments		
Equity instruments at original cost	–	2,944,920
Less: Allowance for impairment		
At 1 January	–	(1,408,420)
Fair value loss on available-for-sale financial asset	–	(128,040)
	–	(1,536,460)
	–	1,408,460

During the current financial year, the Group disposed all its investment in shares of Kinergy Ltd for $2,304,720. Below is the computation of the gain on disposal:

	$
Proceeds from disposal	2,304,720
Less: Carrying value of the investment	(1,408,460)
Reversal of the fair value reserve	192,060
	(1,216,400)
Gain on disposal	1,088,320

13. Inventories

	Group 2012 $	Group 2011 $	Company 2012 $	Company 2011 $
Balance sheet:				
Finished products	2,100,637	2,964,923	2,100,637	2,964,923
Work-in-progress	2,320,726	2,677,987	2,320,726	2,677,987
Raw materials	21,702,490	22,978,774	21,598,730	22,852,158
Total inventories at lower of cost and net realisable value	26,123,853	28,621,684	26,020,093	28,495,068

	Group and Company 2012 $	2011 $
Income statements:		
Inventories recognised as an expense in cost of sales	84,289,331	83,277,789
Inclusive of the following charge:		
- Inventories written-down	7,572	580,823

14. Trade receivables

Trade receivables are non-interest bearing and generally on 30 to 60 days' terms. They are recognised at their original invoiced amounts which represent their fair values on initial recognition. These receivables are not secured by any collateral on credit enhancements.

Approximately 98% (2011: 99%) of the trade receivables are denominated in United States Dollar.

The Group has trade receivables amounting to $5,652,852 (2011: $5,829,916) that are past due at the respective balance sheet date but not impaired. These receivables are unsecured and the analysis of their aging at the respective balance sheet dates are as follows:

	2012 $	2011 $
Trade receivables past due:		
1- 30 days overdue	4,784,051	4,182,000
31 – 60 days overdue	105,666	426,056
61 – 90 days overdue	344,024	203,442
More than 90 days overdue	419,111	1,018,418
	5,652,852	5,829,916

There is no trade receivables that are individually impaired as at 31 December 2012 and 2011.

15. Other receivables

	Group		Company	
	2012 $	2011 $	2012 $	2011 $
Deposits	174,295	159,899	54,429	30,896
Net GST Receivables	123,618	61,641	123,618	61,641
Fair value of forward contracts (Note 25(d))	121,942	–	121,942	–
	419,855	221,540	299,989	92,537

16. Amounts due from/to subsidiary companies

(a) Amounts due from subsidiary companies

The amounts owing by subsidiary companies are non-trade in nature, short-term, unsecured and interest-free.

(b) Amounts due to a subsidiary company

	Company	
	2012 $	2011 $
Trade	1,503,485	2,192,271
Non-trade	–	300,667
	1,503,485	2,492,938

The trade and non-trade balances owing to a subsidiary company are unsecured, interest-free and repayable on demand.

17. Cash and cash equivalents

Cash and cash equivalents comprise the following balance sheet amounts:

	Group		Company	
	2012	2011	2012	2011
	$	$	$	$
Cash at banks and on hand	3,746,850	3,909,778	2,964,465	3,289,911
Short-term deposits	–	801,851	–	801,851
	3,746,850	4,711,629	2,964,495	4,091,762

Cash at banks earns interest at floating rates based on daily bank deposit rates.

The short-term deposits as at 31 December 2011 bear interest rates of 0.07% to 0.43% per annum, which also approximate the effective interest rates. The short-term deposits were made for varying periods of between one week and six months.

Included in cash and cash equivalents are the following amounts denominated in foreign currencies:

	Group		Company	
	2012	2011	2012	2011
	$	$	$	$
United States Dollars	2,647,206	2,479,786	2,114,030	2,055,272
Euro	66,978	70,716	66,978	70,716
Indonesia Rupiah	158,506	93,465	–	–

18. Trade payables and accruals

	Group		Company	
	2012	2011	2012	2011
	$	$	$	$
Trade payables	11,046,944	13,775,203	10,616,579	13,177,329
Fair value of forward contract (Note 25(d))	–	339,345	–	339,345
Accruals for operating expenses	3,921,669	3,113,030	3,384,717	2,694,991
	14,968,613	17,227,578	14,001,296	16,211,665

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

Included in trade payables are the following amounts denominated in foreign currencies:

	Group		Company	
	2012	2011	2012	2011
	$	$	$	$
United States Dollars	4,039,844	6,462,369	4,039,844	6,462,369
Euro	41,555	179,355	41,555	179,355
Sterling Pound	154,535	80,745	154,535	80,745
Canadian Dollars	4,432	66,231	4,432	66,231
Indonesian Rupiah	29,556	51,247	172	–

19. Bank borrowings

	Group and Company	
	2012	2011
	$	$
Bank loans (current)	9,019,795	9,502,961
Bank loans (non-current)	5,500,000	9,100,000
	14,519,795	18,602,961

The bank loans (current) are unsecured and bear interest at 1.26% to 3.20% (2011: 1.2687% to 4.10%) per annum, which approximates the effective interest rates. These loans are repayable within the next 12 months.

Bank loans (current) denominated in foreign currency as at 31 December are as follows:

	Group and Company	
	2012	2011
	$	$
United States Dollar	977,550	2,998,927

There are two (2011: three) bank loans (non-current) that are unsecured and repayable over the next 2 to 3 years:

(i) $NIL (2011: $600,000) bank loan bearing interest rate at NIL% (2011: 1.5%) per annum above the prevailing 3-Month Swap Offer Rate as determined by the bank 2 business days prior to the interest period for such drawing for the 4th and 5th year.

(ii) $500,000 (2011: $1,500,000) bank loan bearing interest rate at 2.5% (2011: 2.5%) above the Swap Offer Rate.

(iii) $5,000,000 (2011: $7,000,000) bank loan bearing a fixed interest rate of 3.2% (2011: 3.2%) per annum.

20. Other liabilities

	Group		Company	
	2012	2011	2012	2011
	$	$	$	$
Deposits by customers	186,956	115,510	186,956	115,510

21. Share capital and treasury shares

	Group and Company	
	2012	2011
	$	$
(a) Share capital		
Issued and fully paid:		
Balance at beginning and end of year 351,736,907 (2011: 351,736,907) ordinary shares	23,897,299	23,897,299
(b) Treasury shares		
Balance at beginning and end of year 4,943,000 (2011: 4,943,000) ordinary shares	836,625	836,625

Treasury shares relate to ordinary shares of the Company that were acquired by the Company. There were no shares acquired by the Company during the 2012 and 2011 financial years.

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.

22. Dividends

	Group and Company 2012 $	2011 $
(a) Dividends declared and paid:		
Interim dividends:		
- Exempt (one-tier) for 2012: 0.460 cents (2011: 0.460 cents) per share	1,595,250	1,595,250
Special dividends:		
- Exempt (one-tier) for 2012: 0.150 cents (2011: NIL) per share	520,190	–
Final dividends:		
- Exempt (one-tier) for 2011: 0.100 cents (2010: 0.166 cents) per share	346,794	575,679
Special dividends:		
- Exempt (one-tier) for 2011: 0.160 cents (2010: 0.700 cents) per share	554,868	2,427,558
	3,017,102	4,598,487

	Group and Company 2012 $	2011 $
(b) Proposed but not recognised as a liability as at 31 December		
Dividends on ordinary shares, subject to shareholders' approval at AGM		
- Final exempt (one-tier) dividend for 2012: 0.100 cents (2011: 0.100 cents) per share	346,794	346,794
- Special exempt (one-tier) dividend for 2012: 0.050 cents (2011: 0.160 cents) per share	173,397	554,870
	520,191	901,664

23. Operating lease commitments

The Group has entered into lease agreement for land which will expire in February 2023. The annual rent is subject to revision in March every year to market rate but will not exceed 5.5% of the rent for each immediately preceding year.

The Group's operating lease expense was $90,661 and $91,521 for the years ended 31 December 2012 and 2011 respectively.

Future minimum lease payments payable under non-cancellable operating leases as at 31 December are as follows:

	Group		Company	
	2012 $	2011 $	2012 $	2011 $
Not later than one year	95,642	86,676	95,642	86,676
Later than one year but not later than five years	438,145	397,071	438,145	397,071
Later than five years	861,008	936,491	861,008	936,491
	1,394,795	1,420,238	1,394,795	1,420,238

24. Related party disclosures

An entity or individual is considered a related party of the Group for the purposes of the financial statements if : (i) it possesses the ability (directly or indirectly) to control or exercise significant influence over the operating and financing decisions of the Group or vice versa; or (ii) it is subject to common control or common significant influence.

The following significant transactions with related parties based on terms agreed by the parties during the financial year:

(a) Sale and purchase of goods and services

	Company 2012 $	2011 $
Subcontract cost paid to subsidiary companies	9,631,300	9,005,822

24. Related party disclosures (cont'd)

(b) Compensation of directors and other key management personnel

	Group	
	2012	2011
	$	$
Central Provident Fund	104,976	106,652
Salaries, wages, bonuses and other costs	2,418,367	2,953,057
Total compensation paid to key management personnel	2,523,343	3,059,709
Comprise amounts paid to:		
Directors of the Company	783,333	1,077,648
Other key management personnel	1,740,010	1,982,061
Total compensation paid to key management personnel	2,523,343	3,059,709

The remuneration of key management personnel is determined by the remuneration committee having regard to the performance of individuals and market trends.

The table below shows the ranges of gross remuneration received by the directors of the Company.

	2012	2011
Number of directors of the Group in remuneration bands:		
$250,000 to $499,000	2	2
Below $250,000	4	4
Total	6	6

The table below shows the ranges of gross remuneration received by the top 5 executives (excluding directors) of the Company:

	2012	2011
Number of executives of the Group in remuneration bands:		
$250,000 to $499,000	1	2
Below $250,000	4	3
Total	5	5

25. Financial risk management objectives and policies

The Group is exposed to financial risks arising from its operations and the use of financial instruments. The key financial risks include liquidity risk, interest rate risk, credit risk and foreign currency risk.

The Board of Directors reviews and agrees policies and procedures for the management of these risks, which are executed by the Chief Financial Officer. It is, and has been throughout the financial years under review, that no derivatives shall be undertaken except for the use as hedging instruments where appropriate and cost-efficient. The Group does not apply hedge accounting.

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

There has been no change to the Group's exposure to these financial risks on the manner in which it manages and measures the risks for FY 2012.

(a) Liquidity risk

Liquidity risk is the risk that the Group will encounter difficulty in meeting financial obligations due to shortage of funds. There is no significant exposure to liquidity risk. The Group's and the Company's objective is to maintain a balance between continuity of funding and flexibility through the use of stand-by credit facilities.

The Group's liquidity risk management policy is to match the maturities of financial assets and liabilities and to maintain sufficient liquid financial assets and stand-by credit facilities.

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

(a) Liquidity risk (cont'd)

The following table summarises the maturity profile of the Group's financial liabilities at the balance sheet date based on contractual undiscounted payments.

	Less than 1 year $	1 to 5 years $	Total $
2012			
Trade payables and accruals	14,968,613	–	14,968,613
Other liabilities	186,956	–	186,956
Bank borrowings	9,050,763	5,703,125	14,753,888
	24,206,332	5,703,125	29,909,457
2011			
Trade payables and accruals	17,227,578	–	17,227,578
Other liabilities	115,510	–	115,510
Bank borrowings	9,502,961	9,100,000	18,602,961
	26,846,049	9,100,000	35,946,049

(b) 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 bank borrowings and fixed deposits.

The Group's policy is to manage interest cost by using a mix of fixed and floating rate debt arrangements. Information regarding the interest rates of the Group's bank borrowings and short term deposits are in Note 17 and 19.

Sensitivity analysis for interest rate risk

At 31 December 2012, if interest rates had been 75 basis points lower/higher with all other variables held constant, the Group's net profit for the year would be approximately $81,000 (2011: $104,000) higher/lower, arising mainly as a result of lower/higher interest income from fixed deposits and higher/lower interest expense on bank borrowings.

(c) 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 and other receivables. For other financial assets (including cash and cash equivalents and derivatives), the Group minimises credit risk by dealing exclusively with high credit rating counterparties.

The Group's objective is to seek continual revenue growth while minimising losses incurred due to increased credit risk exposure. The Group trades only with recognised and creditworthy third parties. It is the Group's policy that all customers who wish to trade on credit terms are subject to credit verification procedures. In addition, receivable balances are monitored on an ongoing basis with the result that the Group's exposure to bad debts is not significant.

Exposure to credit risk

At the balance sheet date, the Group's maximum exposure to credit risk is represented by the carrying amount of each class of financial assets recognised in the balance sheets, including derivatives with positive fair values.

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

(c) Credit risk (cont'd)

Credit risk concentration

The Group determines concentration of credit risk by monitoring the country profile of its trade receivables on an on-going basis.

The credit risk concentration profile of trade receivables by country are as follows:

	2012		2011	
	$'000	%	$'000	%
United States	5,561	29	5,967	30
Europe	7,213	38	7,360	37
Asia Pacific	6,352	33	6,606	33
	19,126	100	19,933	100

As at 31 December 2012, 41.2% (2011: 41.0%) of the Group's trade receivables are due from 2 major customers who are principally located in United States and Europe. There is no significant credit risk as these companies are of good credit standing and have no history of payment defaults.

(d) Foreign exchange risk

The Group has transactional currency exposures arising from sales or purchases that are denominated in a currency other than the respective functional currencies of Group entities, primarily United States Dollar.

Approximately 98% (2011: 99%) of the Group's sales for the financial year ended 31 December 2012 is denominated in United States Dollars whilst approximately 78% (2011: 78%) of purchases for the financial year ended 31 December 2012 is denominated in foreign currencies. The Group's foreign currency denominated trade receivable, trade payable and bank borrowings at the respective balance sheet dates are disclosed in Note 14,18 and 19 respectively.

The Group and the Company also hold cash and cash equivalents denominated in foreign currencies for working capital purposes. These balances at the respective balance sheet dates are disclosed in Note 17.

Based on confirmed customers' orders and revenue forecast, the Group's main operating entity use forward currency contracts to hedge the net currency exposures. The forward currency contracts must be in the same currency as the hedged item. The Group negotiates the terms of the hedge derivatives to match the terms of the hedged item to maximise hedge effectiveness.

At 31 December 2012 and 2011, the Group had hedged 11.5% and 9.9% of its foreign currency denominated sales, for which firm commitments existed at the balance sheet date. The table below summarises the open forward foreign currency contracts as at the respective balance sheet dates.

	2012		2011	
	Contractual notional amount $'000	Estimated fair value $'000	Contractual notional amount $'000	Estimated fair value $'000
Foreign exchange forward contracts to deliver United States dollars and receive Singapore dollars	12,220	122	10,392	(339)

The maturity date of the foreign exchange forward contracts ranged from 1 to 4 months.

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

(d) Foreign exchange risk (cont'd)

Sensitivity analysis for foreign exchange risk

The following table demonstrates the sensitivity to a reasonably possible change in the United States Dollar ("USD"), with all other variables held constant, of the Group's net profit and equity.

	2012 $'000	2011 $'000
USD		
- strengthened by 5%	823	648
- weakened by 5%	(823)	(648)

26. Capital management

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

The Group manages its capital structure and makes adjustments to it, in light of changes in economic conditions. To maintain or adjust the capital structure, the Group may adjust the dividend payment to shareholders, return capital to shareholders or issue new shares. No changes were made in the objectives, policies or processes during the years ended 31 December 2011 and 2012.

The Group has complied with externally imposed capital requirements and loan covenants to which it was subjected to.

The Group monitors capital using the net tangible asset value and current ratio of the Group. The Group's policy is to keep the net tangible asset value at not less than $15 million, and to maintain a current ratio of more than 1.0. The net tangible assets values and current ratios of the Group as at 31 December are as follows:

	Group	
	2012	2011
Net tangible assets	$28,362,372	$27,387,643
Current ratio	1.81	1.75

27. Fair value of financial instruments

Fair value is defined as the amount at which the instrument could be exchanged in a current transaction between knowledgeable willing parties in an arm's length transaction, other than in a forced or liquidation sale. Fair values are obtained from quoted market prices, discounted cash flow models and option pricing models as appropriate.

27. Fair value of financial instruments (cont'd)

(a) Fair value of financial instruments that are carried at fair value

The following table shows an analysis of financial instruments carried at fair value by level of fair value hierarchy:

	Group 2012			
	Quoted price in active markets (Level 1) $'000	**Significant other observable inputs (Level 2) $'000**	**Significant unobservable inputs (Level 3) $'000**	**Total $'000**
Financial asset:				
Derivatives (Note 15)				
- Forward currency contracts	–	122	–	122

	Group 2011			
	Quoted price in active markets (Level 1) $'000	**Significant other observable inputs (Level 2) $'000**	**Significant unobservable inputs (Level 3) $'000**	**Total $'000**
Financial asset:				
Available-for-sale financial assets (Note 12)				
- Equity instruments (quoted)	1,408	–	–	1,408
Financial liability:				
Derivatives (Note 18)				
- Forward currency contracts	–	339	–	339

Fair value hierarchy

The Group classifies fair value measurement using a fair value hierarchy that reflects the significance of the inputs used in making the measurements. The fair value hierarchy have the following levels:

- Level 1 - Quoted prices (unadjusted) in active markets for identical assets
- Level 2 - Inputs other than quoted prices included within Level 1 that are observable for the asset or liability, either directly (i.e., as prices) or indirectly (i.e., derived from prices)
- Level 3 - Inputs for the asset or liability that are not based on observable data (unobservable inputs)

Determination of fair value

Quoted equity instruments (Note 12): Fair value is determined directly by reference to their published market bid price at balance sheet date.

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

Cash and cash equivalents, amounts due from/to subsidiary companies (current), trade and other receivables and other payables and bank borrowings (current)

The carrying amounts approximate fair values due to the relatively short-term maturity of these instruments.

27. Fair value of financial instruments (cont'd)

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

Amounts owing by a subsidiary company (non-current)

The amounts due from a subsidiary company have no repayment terms as disclosed in Note 16. Accordingly, the fair values of the amounts are not determinable as the timing of the future cash flows cannot be estimated reliably.

Loans and borrowings (non-current)

	2012		2011	
	Carrying amount $'000	Fair value $'000	Carrying amount $'000	Fair value $'000
Fixed rate bank loan	5,000	4,579	7,000	6,315

28. Information by segment on the Group's operations

The Group's geographical segments are based on the origin of customers' purchase orders. The following table presents revenue and expenditure information regarding geographical segments for the year ended 31 December 2012 and 2011 and certain asset and liability information regarding geographical segments at 31 December 2012 and 2011.

	Asia-Pacific		USA		Europe		Consolidated	
	2012 $'000	2011 $'000	2012 $'000	2011 $'000	2012 $'000	2011 $'000	2012 $'000	2011 $'000
Segment turnover								
Sales	37,975	33,955	30,342	32,852	38,213	37,953	106,530	104,760
Cost of sales	(27,454)	(24,606)	(23,949)	(26,072)	(32,886)	(32,599)	(84,289)	(83,277)
Segment result	10,521	9,349	6,393	6,780	5,327	5,354	22,241	21,483
Interest income	–	–	–	–	–	–	3	8
Depreciation of property, plant and equipment	–	–	–	–	–	–	(2,291)	(2,481)
Interest expense	–	–	–	–	–	–	(402)	(446)
Fair value gain/(loss) on financial instruments	–	–	–	–	–	–	122	(339)
Gain on disposal of investment securities	1,088	–	–	–	–	–	1,088	–
Impairment of goodwill	–	–	–	–	–	–	(955)	–
Unallocated expenses	–	–	–	–	–	–	(15,834)	(13,747)
Share of results of associated company	186	93	–	–	–	–	186	93
Profit before taxation							4,158	4,571
Taxation							(594)	(1,053)
Net profit for the year	`						3,564	3,518

Information about major customers

There are two major customers that each contributed more than 10% of the Group's Revenue:

1) Revenue amounts to $21,664,000 (2011 : $22,655,000) arising from sales in Asia Pacific, USA and Europe.
2) Revenue amounts to $13,955,000 (2011 : $16,399,000) arising from sales in USA and Europe.

28. Information by segment on the Group's operations (cont'd)

	Asia-Pacific		USA		Europe		Consolidated	
	2012	2011	2012	2011	2012	2011	2012	2011
	$'000	$'000	$'000	$'000	$'000	$'000	$'000	$'000
Other geographical information								
Segment assets	17,423	16,095	13,029	14,917	14,798	17,543	45,250	48,555
Interests in associated company	1,017	866	–	–	–	–	1,017	866
Unallocated assets*	–	–	–	–	–	–	17,995	21,825
Total assets							64,262	71,246
Unallocated and total liabilities							32,936	39,940

* Capital expenditures of approximately $2,026,236 (2011: $1,022,207) and depreciation charge of approximately $2,291,071 (2011: $2,481,078) relate to that of the unallocated assets.

The Group's assets are based mainly in Singapore, Indonesia, and Vietnam where the Group operates.

The following table presents the asset information regarding geographical segments at 31 December 2012 and 2011.

	Singapore		Indonesia		Vietnam		Consolidated	
	2012	2011	2012	2011	2012	2011	2012	2011
	$'000	$'000	$'000	$'000	$'000	$'000	$'000	$'000
Segment assets	52,652	57,322	5,530	6,275	2,100	2,865	60,282	66,462
Goodwill	2,963	3,918	–	–	–	–	2,963	3,918
Interests in associated company	1,017	866	–	–	–	–	1,017	866
Total assets	56,632	62,106	5,530	6,275	2,100	2,865	64,262	71,246
Capital expenditure	1,615	243	325	396	86	383	2,026	1,022

29. Categories of financial assets and liabilities

(a) Available-for-sale financial assets

	Note	Group		Company	
		2012	2011	2012	2011
		$	$	$	$
Investment securities	12	–	1,408,460	–	1,408,460

(b) Loans and receivables

	Note	Group 2012 $	Group 2011 $	Company 2012 $	Company 2011 $
Advances to subsidiary companies		–	–	1,709,947	4,109,947
Trade receivables		19,125,706	19,932,947	18,970,845	19,675,206
Other receivables (excluding fair value of forward contracts)	15	297,913	221,540	176,047	92,537
Amount due from subsidiary companies	16	–	–	1,479,580	2,767,323
Cash and cash equivalents	17	3,746,850	4,711,629	2,964,495	4,091,762
		23,170,469	24,866,116	25,300,914	30,736,775

(c) Financial liabilities measured at amortised cost

	Note	Group 2012 $	Group 2011 $	Company 2012 $	Company 2011 $
Trade payables and accruals (less fair value of forward contracts, accrued salary and other employees benefits)	18	12,477,361	15,377,566	11,913,637	14,582,133
Amounts due to a subsidiary company	16	–	–	1,503,485	2,492,938
Bank borrowings	19	14,519,795	18,602,961	14,519,795	18,602,961
Other liabilities	20	186,956	115,510	186,956	115,510
		27,184,112	34,096,037	28,123,873	35,793,542

30. Authorisation of financial statements for issue

The financial statements for the year ended 31 December 2012 were authorised for issue in accordance with a resolution of the directors on 8 March 2013.

Statistics of Shareholdings as at 11 March 2013

Number of issued and paid-up shares (excluding treasury shares)	:	346,793,907
Number of treasury shares held	:	4,943,000
Issued and fully paid-up capital	:	S$23,572,686.36
Class of shares	:	Ordinary
Voting rights	:	One vote per share

The percentage of treasury shares held against the total issued shares (excluding treasury shares) is 1.43%.

Statistics of Shareholdings

Size of Shareholdings	No. of Shareholders	%	No. of Shares	%
1 – 999	450	10.15	203,825	0.06
1,000 – 10,000	1,517	34.21	8,090,892	2.33
10,001 – 1,000,000	2,435	54.92	154,040,591	44.42
1,000,001 and above	32	0.72	184,458,599	53.19
Total	4,434	100.00	346,793,907	100.00

Twenty Largest Shareholders

No.	Name	No. of Shares	%
1.	Republic Technologies Pte Ltd	62,726,400	18.09
2.	Tien Sing Cheong	34,687,600	10.00
3.	Tan Ka Huat @ Kaharianto Tanmalano or Tan Kylie	10,000,000	2.88
4.	Tan Cheok Hoong	7,627,000	2.20
5.	Tan Ka Huat @ Kaharianto Tanmalano	5,901,360	1.70
6.	Ng Cheng Kung or Neo Chwe Yong	5,821,960	1.68
7.	United Overseas Bank Nominees Pte Ltd	5,713,344	1.65
8.	DBS Nominees Pte Ltd	5,409,288	1.56
9.	DBS Vickers Securities (S) Pte Ltd	4,281,588	1.23
10.	OCBC Nominees Singapore Pte Ltd	3,995,992	1.15
11.	Heng Teck Yow	3,751,800	1.08
12.	Kuan Bon Heng	3,560,000	1.03
13.	Lim Sea Leang	3,050,536	0.88
14.	Choo Kang Looi @ Chew Kang Looi	2,700,000	0.78
15.	Chin Teck Keong	1,952,080	0.56
16.	Thng Ah Hiang	1,891,787	0.55
17.	Tan Bien Chuan	1,878,800	0.54
18.	OCBC Securities Private Ltd	1,608,484	0.46
19.	Tang Martin Yue Nien	1,598,800	0.46
20.	Fong Yin Choon	1,549,660	0.45
	Total	169,706,479	48.93

Substantial Shareholders
(As recorded in the Register of Substantial Shareholders)

	Direct Interest	%	Deemed Interest	%
Republic Technologies Pte Ltd	62,726,400	18.09	–	–
Temasek Holdings (Private) Limited	–	–	62,726,400[(1)]	18.09
Temasek Capital (Private) Limited	–	–	62,726,400[(1)]	18.09
Seletar Investments Pte Ltd	–	–	62,726,400[(1)]	18.09
Tien Sing Cheong	34,687,600	10.00	–	–

Notes:

[(1)] Temasek Holdings (Private) Limited, Temasek Capital (Private) Limited and Seletar Investments Pte Ltd are deemed to have an interest in 62,726,400 shares held by Republic Technologies Pte Ltd.

Based on the information available to the Company, approximately 65.92% of the Company's shares listed on the Singapore Exchange Securities Trading Limited were in the hands of the public. Therefore, the Company has complied with Rule 723 of the SGX Listing Manual.

CEI CONTRACT MANUFACTURING LIMITED

(Company Registration No. 199905114H)
(Incorporated in Singapore with limited liability)

NOTICE OF ANNUAL GENERAL MEETING

NOTICE IS HEREBY GIVEN that the Fourteenth Annual General Meeting of CEI CONTRACT MANUFACTURING LIMITED ("the Company") will be held at The Grassroots' Club, 190 Ang Mo Kio Avenue 8, Singapore 568046 on Tuesday, 23 April 2013 at 10.00 a.m. for the following purposes:

AS ORDINARY BUSINESS

1. To receive and adopt the Directors' Report and the Audited Accounts of the Company for the year ended 31 December 2012 together with the Auditors' Report thereon. (Resolution 1)

2. To declare a one-tier tax-exempt second and final dividend of 0.10 cents per share for the year ended 31 December 2012 (2011: 0.10 cents per share). (Resolution 2)

3. To declare a one-tier tax-exempt special dividend of 0.05 cents per share for the year ended 31 December 2012 (2011: 0.16 cents per share). (Resolution 3)

4. To re-elect the following Directors of the Company retiring pursuant to Article 107 of the Company's Articles of Association:

   Mr Tien Sing Cheong (Resolution 4)
   Mr Gan Chee Yen (Resolution 5)

   Mr Tien Sing Cheong will, upon re-election as a Director of the Company, remain as Chairman of the Board and a member of the Nominating Committee and will be considered non-independent.

   Mr Gan Chee Yen will, upon re-election as a Director of the Company, remain as a member of the Audit Committee and a member of the Remuneration Committee and will be considered non-independent.

5. To approve the payment of Directors' fees of S$203,500 for the year ended 31 December 2012 (2011: S$203,500). (Resolution 6)

6. To re-appoint Ernst & Young LLP as the Auditors of the Company and to authorise the Directors of the Company to fix their remuneration. (Resolution 7)

7. 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:

8. **Authority to issue shares**

   That pursuant to Section 161 of the Companies Act, Cap. 50 and Rule 806 of the Listing Manual of the Singapore Exchange Securities Trading Limited, the Directors of the Company be authorised and empowered to:

   (a) (i) issue shares in the Company ("shares") whether by way of rights, bonus or otherwise; and/or

   (ii) make or grant offers, agreements or options (collectively, "Instruments") that might or would require shares to be issued, including but not limited to the creation and issue of (as well as adjustments to) options warrants, debentures or other instruments convertible into shares,

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

AS SPECIAL BUSINESS (cont'd)

(b) (notwithstanding the authority conferred by this Resolution may have ceased to be in force) issue shares in pursuance of any Instruments 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 in pursuance of the Instruments, made or granted pursuant to this Resolution) to be issued pursuant to this Resolution 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), 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 ten per centum (10%) 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 Singapore Exchange Securities Trading Limited) 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;

(3) in exercising the authority conferred by this Resolution, the Company shall comply with the provisions of the Listing Manual of the Singapore Exchange Securities Trading Limited for the time being in force (unless such compliance has been waived by the Singapore Exchange Securities Trading Limited) and the Articles of Association of the Company; and

(4) unless revoked or varied by the Company in a general meeting, such authority shall continue in force until the conclusion of the next Annual General Meeting of the Company or the date by which the next Annual General Meeting of the Company is required by law to be held, whichever is earlier. [See Explanatory Note (i)] (Resolution 8)

9. **Renewal of Share Purchase Mandate**

That for the purposes of Sections 76C and 76E of the Companies Act, Cap. 50, the Directors of the Company be and are hereby authorised to make purchases or otherwise acquire issued shares in the capital of the Company from time to time (whether by way of market purchases or off-market purchases on an equal access scheme) of up to two per centum (2%) of the total number of issued shares (excluding treasury shares) in the capital of the Company (as ascertained as at the date of Annual General Meeting of the Company) at the price of up to but not exceeding the Maximum Price as defined in the Letter to Shareholders attached, and this mandate shall, unless revoked or varied by the Company in general meeting, continue in force until the conclusion of the next Annual General Meeting of the Company or the date by which the next Annual General Meeting of the Company is required by law to be held, whichever is earlier. [See Explanatory Note (ii)]
(Resolution 9)

By Order of the Board

Teo Soon Hock
Secretary
Singapore, 8 April 2013

Explanatory Notes:

(i) The Ordinary Resolution 8 in item 8 above, if passed, will empower the Directors of the Company, effective until the conclusion of the next Annual General Meeting of the Company, or the date by which the next Annual General Meeting of the Company is required by law to be held 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, 50% of the total number of issued shares (excluding treasury shares) in the capital of the Company, of which up to 10% may be issued other than on a pro-rata basis to shareholders.

For determining the aggregate number of shares that may be issued, the total number of issued shares (excluding treasury shares) will be calculated based on the total number of issued shares (excluding treasury shares) in the capital of the Company at the time this Ordinary 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.

(ii) The Ordinary Resolution 9 proposed in item 9 above, if passed, will empower the Directors of the Company effective until the conclusion of the next Annual General Meeting of the Company or the date by which the next Annual General Meeting of the Company is required by law to be held, whichever is the earlier, to repurchase ordinary shares of the Company by way of market purchases or off-market purchases of up to two per centum (2%) of the total number of issued shares (excluding treasury shares) in the capital of the Company at the Maximum Price as defined in the Letter to Shareholders attached. The rationale for, the authority and limitation on, the sources of funds to be used for the purchase or acquisition including the amount of financing and the financial effects of the purchase or acquisition of ordinary shares by the Company pursuant to the Share Purchase Mandate on the audited consolidated financial accounts of the Group for the financial year ended 31 December 2012 are set out in greater detail in the Letter to Shareholders attached.

Notes:

1. A Member entitled to attend and vote at the Annual General Meeting (the "Meeting") is entitled to appoint not more than two proxies to attend and vote in his/her stead. A proxy need not be a Member of the Company.

2. The instrument appointing a proxy must be deposited at the Registered Office of the Company at 2 Ang Mo Kio Avenue 12 Singapore 569707 not less than forty-eight (48) hours before the time appointed for holding the Meeting.

CEI CONTRACT MANUFACTURING LIMITED

Company Registration No. 199905114H

(Incorporated In The Republic of Singapore)

IMPORTANT:

1. For investors who have used their CPF monies to buy CEI Contract Manufacturing Limited's shares, this Report is forwarded to them at the request of the CPF Approved Nominees and is sent solely FOR INFORMATION ONLY.
2. This Proxy Form is not valid for use by CPF investors and shall be ineffective for all intents and purposes if used or purported to be used by them.
3. CPF investors who wish to attend the Meeting as an observer must submit their requests through their CPF Approved Nominees within the time frame specified. If they also wish to vote, they must submit their voting instructions to the CPF Approved Nominees within the time frame specified to enable them to vote on their behalf.

PROXY FORM

(Please see notes overleaf before completing this Form)

I/We, ____

of ____

being a *member/members of CEI CONTRACT MANUFACTURING LIMITED (the "Company"), hereby appoint:

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

and /or (delete as appropriate)

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

or failing the person, or either or both of the persons, referred to above, the Chairman of the Meeting as *my/our *proxy/proxies to vote for *me/us on *my/our behalf at the Annual General Meeting (the "Meeting") of the Company to be held at The Grassroots' Club, 190 Ang Mo Kio Avenue 8, Singapore 568046 on Tuesday, 23 April 2013 at 10.00 a.m. and at any adjournment thereof. *I/We direct *my/our *proxy/proxies to vote for or against the Resolutions proposed at the Meeting as indicated hereunder. If no specific direction as to voting is given or in the event of any other matter arising at the Meeting and at any adjournment thereof, the *proxy/proxies will vote or abstain from voting at *his/her discretion. The authority herein includes the right to demand or to join in demanding a poll and to vote on a poll.

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

No.	Resolutions relating to:	For	Against
1	Directors' Report and Audited Accounts for the year ended 31 December 2012		
2	Payment of proposed one-tier tax-exempt second & final dividend		
3	Payment of proposed one-tier tax-exempt special dividend		
4	Re-election of Mr Tien Sing Cheong as a Director		
5	Re-election of Mr Gan Chee Yen as a Director		
6	Approval of Directors' fees amounting to $203,500		
7	Re-appointment of Ernst & Young LLP as Auditors		
8	Authority to issue shares		
9	Renewal of Share Purchase Mandate		

Dated this ________________ day of ________________ 2013

____

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

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

*Delete where inapplicable

CEI CONTRACT MANUFACTURING LIMITED
Company Registration No. 199905114H
(Incorporated In The Republic of Singapore)

PROXY FORM (Cont'd Page 2)

Notes:

1. Please insert the total number of Shares held by you. If you have Shares entered against your name in the Depository Register (as defined in Section 130A of the Companies Act, Chapter 50 of Singapore), you should insert that number of Shares. If you have Shares registered in your name in the Register of Members, you should insert that number of Shares. If you have Shares entered against your name in the Depository Register and Shares registered in your name in the Register of Members, you should insert the aggregate number of Shares entered against your name in the Depository Register and registered in your name in the Register of Members. If no number is inserted, the instrument appointing a proxy or proxies shall be deemed to relate to all the Shares held by you.

2. A member of the Company entitled to attend and vote at a meeting of the Company is entitled to appoint one or two proxies to attend and vote in his/her stead. A proxy need not be a member of the Company.

3. Where a member appoints 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. Completion and return of this instrument appointing a proxy shall not preclude a member from attending and voting at the Meeting. Any appointment of a proxy or proxies shall be deemed to be revoked if a member attends the meeting in person, and in such event, the Company reserves the right to refuse to admit any person or persons appointed under the instrument of proxy to the Meeting.

5. The instrument appointing a proxy or proxies must be deposited at the registered office of the Company at 2 Ang Mo Kio Avenue 12 Singapore 569707 not less than forty-eight (48) hours before the time appointed for the Meeting.

6. The instrument appointing a proxy or proxies must be under the hand of the appointor or of his attorney duly authorised in writing. Where the instrument appointing a proxy or proxies is executed by a corporation, it must be executed either under its seal or under the hand of an officer or attorney duly authorised. Where the instrument appointing a proxy or proxies is executed by an attorney on behalf of the appointor, the letter or power of attorney or a duly certified copy thereof must be lodged with the instrument.

7. A corporation which is a member may authorise by resolution of its directors or other governing body such person as it thinks fit to act as its representative at the Meeting, in accordance with Section 179 of the Companies Act, Chapter 50 of Singapore.

General:

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

CEI CONTRACT MANUFACTURING LIMITED
(Company Registration No. 199905114H)
(Incorporated in the Republic of Singapore)

Directors	**Registered Office:**
Tien Sing Cheong (Executive Chairman)	2 Ang Mo Kio Avenue 12
Tan Ka Huat (Managing Director)	Singapore 569707
Gan Chee Yen (Non-Executive Director)	8 April 2013
Tan Bien Chuan (Independent Director)	
Tang Martin Yue Nien (Independent Director)	
Colin Ng Teck Sim (Independent Director)	

To: The shareholders of CEI Contract Manufacturing Limited ("**Shareholders**")

Dear Sir/Madam

PROPOSED RENEWAL OF THE SHARE PURCHASE MANDATE

We refer to the Notice of Annual General Meeting (the "**AGM**") of CEI Contract Manufacturing Limited (the "**Company**") dated 8 April 2013 in respect of the AGM to be held on Tuesday, 23 April 2013 at 10.00 a.m. and resolution 9 set out under "Special Business" in the Notice of the said AGM ("**Resolution 9**").

1. **Background**

Shareholders had approved the renewal of a mandate (the "**2012 Share Purchase Mandate**") at the last Annual General Meeting of the Company held on 16 April 2012 to enable the Company to purchase or otherwise acquire issued ordinary shares in the capital of the Company ("**Shares**"). The authority conferred on the Directors under the 2012 Share Purchase Mandate will expire on the forthcoming AGM of the Company to be held on 23 April 2013 ("**2013 AGM**").

Accordingly, the Directors propose to seek the approval of Shareholders for the renewal of the 2012 Share Purchase Mandate (the "**Proposed Share Purchase Mandate**"). The Proposed Share Purchase Mandate is set out in Resolution 9. The purpose of this letter is to provide Shareholders with information in relation to the Proposed Share Purchase Mandate.

2. **Rationale for the Proposed Share Purchase Mandate**

The mandate sought by the Company for the share purchase is in conjunction with the Share Performance Plan ("**SPP**") and the Restricted Share Plan ("**RSP**") to reward the Employees and Non-Executive Directors respectively. The shares purchased may be held or dealt with as treasury shares which will be transferred to the Employees under the SPP and to the Non-Executive Directors under the RSP.

The purchase by a company of its issued shares is one of the ways in which the return on equity of the company may be improved, thereby increasing shareholder value. By obtaining the Proposed Share Purchase Mandate, the Company will have the flexibility to undertake purchases of Shares at any time, subject to market conditions, during the period when the Proposed Share Purchase Mandate is in force. The Proposed Share Purchase Mandate will also facilitate the return to the Shareholders by the Company of surplus cash (if any), which is in excess of the Company's financial needs in an expedient and cost-effective manner.

The Directors further believe that Share purchases by the Company may help to mitigate short-term market volatility in the Company's Share price, off-set the effects of short-term speculation and bolster Shareholders' confidence.

Shareholders should note that purchases or acquisitions of Shares pursuant to the Proposed Share Purchase Mandate might not be carried out to the full limit as authorised.

3. **Authority and Limits of the Share Purchase Mandate**

The authority and limitations placed on purchases or acquisitions of Shares by the Company under the Proposed Share Purchase Mandate are summarised below:

(a) **Maximum Number of Shares**

Only shares that are issued and fully paid-up may be purchased or acquired by the Company.

The total number of Shares which may be purchased or acquired by the Company pursuant to the Proposed Share Purchase Mandate shall not exceed **two per cent (2%)** of the issued ordinary share capital of the Company as at the date of the passing of Resolution 9 set out in the Notice of the 2013 AGM (the "**Maximum Limit**"), where the issued ordinary share capital of the Company shall be taken to be the amount of the issued ordinary share capital of the Company as altered excluding any treasury shares that may be held by the Company from time to time.

The total number of Shares in issue (excluding 4,943,000 treasury shares) as at 25 February 2013 (the "**Latest Practicable Date**") is 346,793,907. Purely for illustrative purposes, on the basis of 346,793,907 Shares in issue (excluding 4,943,000 treasury shares) as at the Latest Practicable Date and assuming that no further Shares are issued on or prior to the 2013 AGM, not more than 6,935,878 Shares (representing 2% of the Shares in issue as at that date) may be purchased or acquired by the Company pursuant to the Proposed Share Purchase Mandate.

The Company will monitor purchases of shares to ensure that the Maximum Limit will not be exceeded.

(b) **Duration of Authority**

Purchases or acquisitions of Shares may be made, at any time and from time to time, by the Company on and from the date of the 2013 AGM at which the Share Purchase Mandate is last approved up to the earliest of:

(i) the date on which the next Annual General Meeting of the Company is held or required by law to be held;

(ii) the date on which the share purchases are carried out to the full extent mandated; or

(iii) the time when the authority conferred by the Proposed Share Purchase Mandate is revoked or varied by the Shareholders of the Company in general meeting.

The Proposed Share Purchase Mandate may be renewed at each Annual General Meeting or other general meeting of the Company.

(c) **Manner of Purchases or Acquisitions of Shares**

Purchases or acquisitions of Shares may be effected by the Company by way of:

(i) on-market purchases ("**Market Purchases**"); and/or

(ii) off-market purchases, otherwise than on a securities exchange, in accordance with an "equal access scheme" as defined in Section 76C of the Companies Act ("**Off-Market Purchases**").

Market Purchases refer to purchases or acquisitions of Shares by the Company effected on the SGX-ST, through one or more duly licensed dealers appointed by the Company for the purpose.

In an Off-Market Purchase, the Directors may impose such terms and conditions which are not inconsistent with the Proposed Share Purchase Mandate, the SGX-ST Listing Manual, the Companies Act and other applicable laws and regulations, as they consider fit in the interests of the Company in connection with or in relation to any equal access scheme or schemes. An equal access scheme must, however, satisfy the following conditions:

(i) offers for the purchase or acquisition of Shares shall be made to every person who holds Shares to purchase or acquire the same percentage of their Shares;

(ii) all of those persons shall be given a reasonable opportunity to accept the offers made; and

(iii) the terms of all the offers are the same, except that there shall be disregarded:-

(aa) differences in consideration attributable to the fact that the offers may relate to Shares with different accrued dividend entitlements;

(bb) (if applicable) differences in consideration attributable to the fact that the offers relate to Shares with different amounts remaining unpaid; and

(cc) differences in the offers introduced solely to ensure that each person is left with a whole number of Shares.

Under the SGX-ST Listing Manual, if the Company wishes to make an Off-Market Purchase, the Company will issue an offer document containing, *inter alia,* the following information to all Shareholders:

(i) the terms and conditions of the offer;

(ii) the period and procedures for acceptances; and

(iii) the information required under Rule 883(2), (3), (4) and (5) of the SGX-ST Listing Manual.

(d) **Maximum Purchase Price**

The purchase price (excluding ancillary expenses such as brokerage, commission, applicable goods and services tax, stamp duties, clearance fees and other related expenses) to be paid for the Shares will be determined by the Directors. However, the purchase price to be paid for the Shares must not exceed the maximum price ("**Maximum Price**") as set out below:

(i) in the case of a Market Purchase, 105% of the Average Closing Price of the Shares; and

(ii) in the case of an Off-Market Purchase, 105% of the Average Closing Price of the Shares,

in each case, excluding related expenses of the purchase or acquisition.

For the above purposes:

"**Average Closing Price**" means the average of the closing market prices of a Share over the last five (5) Market Days on which transactions in the Shares were recorded on the SGX-ST immediately preceding the date of the Market Purchase by the Company or, as the case may be, the date of the making of the offer pursuant to the Off-Market Purchase, and deemed to be adjusted for any corporate action that occurs after the relevant five-day period; and

"**date of the making of the offer**" means the date on which the Company announces its intention to make an offer for the purchase or acquisition of Shares from holders of Shares, stating therein the relevant terms of the equal access scheme for effecting the Off-Market Purchase.

4. **Status of Purchased or Acquired Shares under the Share Purchase Mandate**

A Share which is purchased or acquired by the Company is deemed cancelled immediately on purchase or acquisition (and all rights and privileges attached to the Share will expire on such cancellation) unless such Share is held by the Company as a treasury share. Accordingly, the total number of issued Shares will be diminished by the number of Shares purchased or acquired by the Company and which are not held as treasury shares.

5. **Treasury Shares Held by the Company**

Under the Companies Act, Shares purchased or acquired by the Company may be held or dealt with as treasury shares. Some of the provisions on treasury shares under the Companies Act are summarised below:

(a) **Maximum Holdings**

The number of Shares held as treasury shares cannot at any time exceed 10% of the total number of issued Shares.

(b) **Voting and Other Rights**

The Company cannot exercise any right in respect of treasury shares. In particular, the Company cannot exercise any right to attend or vote at meetings and for the purposes of the Companies Act, the Company shall be treated as having no right to vote and the treasury shares shall be treated as having no voting rights.

In addition, no dividend may be paid, and no other distribution of the Company's assets may be made, to the Company in respect of treasury shares. However, the allotment of shares as fully paid bonus shares in respect of treasury shares is allowed. Also, a subdivision or consolidation of any treasury share into treasury shares of a smaller amount is allowed so long as the total value of the treasury shares after the subdivision or consolidation is the same as before.

(c) **Disposal and Cancellation**

Where Shares are held as treasury shares, the Company may at any time:

(i) sell the treasury shares for cash;

(ii) transfer the treasury shares for the purposes of or pursuant to an employees' share scheme;

(iii) transfer the treasury shares as consideration for the acquisition of shares in or assets of another company or assets of a person;

(iv) cancel the treasury shares; or

(v) sell, transfer or otherwise use the treasury shares for such other purposes as may be prescribed by the Minister for Finance.

6. **Source of Funds**

Previously, any payment made by the Company in consideration of the purchase or acquisition of its own Shares may only be made out of the Company's distributable profits. The Companies Act now permits the Company to also purchase its own Shares out of capital, as well as from its profits.

The Directors do not propose to exercise the Proposed Share Purchase Mandate in a manner and to such an extent that the working capital position of the Group would be materially adversely affected.

The Company will use internal resources or external borrowings or a combination of both to fund purchases of Shares pursuant to the Proposed Share Purchase Mandate.

7. **Financial Effects**

Where the Company chooses to cancel any of the shares it repurchased, the Company shall:

(a) reduce the amount of its share capital where the shares were purchased or acquired out of the capital of the Company;

(b) reduce the amount of its profits where the shares were purchased or acquired out of the profits of the Company; or

(c) reduce the amount of its share capital and profits proportionately where the shares are purchased or acquired out of both the capital and the profits of the company,

by the total amount of the purchase price paid by the Company for the shares cancelled.

The consideration paid by the Company for the purchase or acquisition of Shares (including related brokerage, commission, applicable goods and services tax, stamp duties, clearance fees and other related expenses) will correspondingly reduce the amount available for the distribution of cash dividends by the Company.

The financial effects on the Company arising from purchases or acquisitions of Shares which may be made pursuant to the Proposed Share Purchase Mandate will depend on, *inter alia*, the aggregate number of Shares purchased or acquired, the consideration paid at the relevant time, and the amount (if any) borrowed by the Company to fund the purchases or acquisitions.

In the event that Shares are repurchased by the Company, the financial effect on the EPS, the NTA and the share capital are the same whether the Shares repurchased are cancelled or held as treasury shares. Where the Shares repurchased are held as treasury shares, this is recorded in the balance sheet of the Company as a separate line item.

7.1 **Purchase or Acquisition out of capital or profits**

Under the Companies Act, as amended by the Companies Amendment Act, purchases or acquisitions of Shares by the Company may be made out of the Company's capital or profits so long as the Company is solvent. For this purpose, a company is "insolvent" if:

(a) it is unable to pay its debts as they become due in the normal course of business. The Companies Amendment Act requires the company further to be able to pay its debts as they fall due in the normal course of business not only at the time of the purchase or acquisition but also during the period of 12 months after the purchase or acquisition; or

(b) the value of its assets is less than the value of its liabilities (including contingent liabilities), having regard to the most recent financial statements of the company and all other circumstances that the directors or managers of the company know or ought to know affect or may affect such values. The Companies Amendment Act further requires that the value of the company's assets will not be less than the value of its liabilities not only at the time of the purchase or acquisition but also after such purchase or acquisition.

Where the consideration paid by the Company for the purchase or acquisition of Shares is made out of profits, such consideration (excluding related brokerages, goods and services tax, stamp duties and clearance fees) will correspondingly reduce the amount available for the distribution of cash dividends by the Company. Where the consideration paid by the Company for the purchase or acquisition of Shares is made out of capital, the amount available for the distribution of cash dividends by the Company will not be reduced.

7.2 **Information as at the Latest Practicable Date**

As at the Latest Practicable Date, the issued share capital of the Company comprised 346,793,907 Shares (excluding treasury shares). As at the Latest Practicable Date, there are no outstanding unexercised Share options**.**

7.3 **Maximum price that may be paid for Shares acquired or purchased**

Based on the existing issued and paid-up ordinary share capital of the Company as at the Latest Practicable Date, the purchase by the Company of 2 per cent of its issued Shares will result in the purchase or acquisition of 6,935,878 Shares.

Assuming the Company purchases or acquires the 6,935,878 Shares at the Maximum Price, the maximum amount of funds required (excluding related brokerage, commission, applicable goods and services tax, stamp duties, clearance fees and other related expenses) is:

(a) in the case of Market Purchases of Shares, approximately $831,681 based on 11.99 cents for one Share (being the price equivalent to five per cent. above the Average Closing Price of the Shares traded on the SGX-ST for the five consecutive Market Days immediately preceding the Latest Practicable Date); and

(b) in the case of Off-Market Purchases of Shares, approximately $831,681 based on 11.99 cents for one Share (being the price equivalent to five per cent. above the Average Closing Price of the Shares traded on the SGX-ST for the five consecutive Market Days immediately preceding the Latest Practicable Date).

For illustrative purposes only, on the basis of the assumptions set out in 7.2 and 7.3 above, and assuming that the purchases of Shares are financed solely by internal resources, the financial effects of the purchase or acquisition of Shares by the Company pursuant to the Share Purchase Mandate by way of purchases made entirely out of capital on the audited financial statements of the Group and the Company for the financial year ended 31 December 2012 would have been as follows:

Market Purchases and/or Off-Market Purchases of up to a maximum of 2% made out of capital and cancelled

	Group		Company	
	Before Share Purchase	**After Share Purchase**	**Before Share Purchase**	**After Share Purchase**
<u>As at 31 December 2012</u>				
Shareholders' Funds	$31,325,836	$30,494,155	$31,221,786	$30,390,105
Treasury Shares	($836,625)	($836,625)	($836,625)	($836,625)
Net Tangible Assets	$28,362,372	$27,530,691	$28,258,476	$27,426,795
Current Assets	$49,792,247	$48,960,566	$50,057,844	$49,226,163
Current Liabilities	$27,436,245	$27,436,245	$27,386,318	$27,386,318
Total Borrowings	$14,519,795	$14,519,795	$14,519,795	$14,519,795
Cash and Cash Equivalents	$3,746,850	$2,915,169	$2,964,495	$2,132,814
Number of Shares as at 31 December 2012 ('000)	346,793	339,858	346,793	339,858
Weighted average shares ('000)	346,793	339,858	346,793	339,858
<u>Financial Ratios</u>				
NTA per Share (cents) (1)	8.18	8.10	8.15	8.07
Basic Earnings per Share (cents) (2)	1.03	1.05	0.52	0.53
Gearing (%)	46.35%	47.62%	46.51%	47.78%
Current Ratio (times) (3)	1.81	1.78	1.83	1.80

Market Purchases and/or Off-Market Purchases of up to a maximum of 2% made out of capital and held as treasury shares

	Group		Company	
	Before Share Purchase	**After Share Purchase**	**Before Share Purchase**	**After Share Purchase**
<u>As at 31 December 2012</u>				
Shareholders' Funds	$31,325,836	$30,494,155	$31,221,786	$30,390,105
Treasury Shares	($836,625)	($1,668,306)	($836,625)	($1,668,306)
Net Tangible Assets	$28,362,372	$27,530,691	$28,258,476	$27,426,795
Current Assets	$49,792,247	$48,960,566	$50,057,844	$49,226,163
Current Liabilities	$27,436,245	$27,436,245	$27,386,318	$27,386,318
Total Borrowings	$14,519,795	$14,519,795	$14,519,795	$14,519,795
Cash and Cash Equivalents	$3,746,850	$2,915,169	$2,964,495	$2,132,814
Number of Shares as at 31 December 2012 ('000)	346,793	339,858	346,793	339,858
Weighted average shares ('000)	346,793	339,858	346,793	339,858
<u>Financial Ratios</u>				
NTA per Share (cents) (1)	8.18	8.10	8.15	8.07
Basic Earnings per Share (cents) (2)	1.03	1.05	0.52	0.53
Gearing (%)	46.35%	47.62%	46.51%	47.78%
Current Ratio (times) (3)	1.81	1.78	1.83	1.80

Notes:

(1) NTA per share is calculated by the Net Tangible Assets divided by the number of shares as at 31 December 2012.

(2) Basic EPS is calculated by the profit attributable to shareholders divided by the weighted average number of shares..

(3) Current ratio is derived based on current assets divided by current liabilities.

Shareholders should note that the financial effects set out above are for illustration purposes only (based on the aforementioned assumptions). The actual impact will depend on, *inter alia,* the number and price of the Shares purchased or acquired (if any). In particular, Shareholders should note that the above analysis is based on the audited financial statements of the Company for the financial year ended 31 December 2012 and is not necessarily representative of future financial performance.

The Company may take into account both financial and non-financial factors (for example, stock market conditions and the performance of the Shares) in assessing the relative impact of a share purchase before execution.

8. **Requirements in the SGX-ST Listing Manual**

(a) The SGX-ST Listing Manual specifies that a listed company shall report all purchases or acquisitions of its shares to the SGX-ST not later than 9.00 a.m. (i) in the case of a Market Purchase, on the Market Day following the day on which the Market Purchase was effected, and (ii) in the case of an Off-Market Purchase, on the second Market Day after the close of acceptances of the offer. The notification of such purchases or acquisitions to the SGX-ST shall be in such form, and shall include such details, as may be prescribed by the SGX-ST in the SGX-ST Listing Manual.

(b) The SGX-ST Listing Manual does not expressly prohibit any purchase of shares by a listed company during any particular time(s). However, as the Company would be regarded as an "insider" in relation to any proposed purchase or acquisition of its shares, the Company will not undertake any purchase or acquisition of Shares pursuant to the Share Purchase Mandate in the following circumstances:

(i) at any time after any matter or development of a price-sensitive nature has occurred or has been the subject of a decision of the Board until the price-sensitive information has been publicly announced; and

(ii) in the case of Market Purchases, during the period commencing one month immediately before the announcement of the Company's half-year or full-year results, as the case may be, and (if applicable) the period of two weeks before the announcement of the Company's other interim results, as the case may be.

(c) The SGX-ST Listing Manual requires a company to ensure that at least 10% of equity securities (excluding preference shares and convertible equity securities) in a class that is listed are held by public shareholders. The "public", as defined under the SGX-ST Listing Manual, are persons other than the directors, chief executive officer, substantial shareholders or controlling shareholders of the Company and its, as well as the associates of such persons.

As at the Latest Practicable Date, there are approximately 228,623,747 Shares in the hands of the public, representing approximately 65.92% of the issued ordinary share capital of the Company. Accordingly, the Company is of the view that there is, at present, a sufficient number of Shares held by public shareholders which would permit the Company to undertake purchases and acquisitions of its Shares up to the full 2% limit pursuant to the Proposed Share Purchase Mandate, without adversely affecting the listing status of its Shares on the SGX-ST.

9. **Certain Take-over Code Implications**

9.1 **Obligation to Make a Take-over Offer**

Any resultant increase in the percentage of voting rights held by a Shareholder and persons acting in concert with him, following any purchase or acquisition of Shares by the Company, will be treated as an acquisition for the purposes of Rule 14 of the Take-over Code ("**Rule 14**"). Consequently, depending on the number of Shares purchased or acquired by the Company and the Company's issued share capital at that time, a Shareholder or group of Shareholders acting in concert with each other could obtain or consolidate effective control of the Company and could become obliged to make a take-over offer under Rule 14.

9.2 **Persons Acting in Concert**

Under the Take-over Code, persons acting in concert comprise individuals or companies who, pursuant to an agreement or understanding (whether formal or informal), co-operate, through the acquisition by any of them of shares in a company to obtain or consolidate effective control of that company. Unless the contrary is established, the following persons. *inter alia,* will be presumed to be acting in concert, namely, (i) a company with any of its directors (together with their close relatives, related trusts as well as companies controlled by any of the directors, their close relatives and related trusts), and (ii) a company, its parent, and fellow, and their associated companies and companies of which such companies are associated companies, all with each other. For this purpose, a company is an Associate of another company if the second company owns or controls at least twenty per cent. (20%) but not more than fifty per cent. (50%) of the voting rights of the first-mentioned company.

9.3 **Effect of Rule 14 and Appendix 2**

The circumstances under which Shareholders (including Directors) and persons acting in concert with them respectively will incur an obligation to make a take-over offer under Rule 14 after a purchase or acquisition of Shares by the Company are set out in Rule 14 and Appendix 2 of the Take-over Code. In general terms, the effect of Rule 14 and Appendix 2 is that, unless exempted, Directors and persons acting in concert with them will incur an obligation to make a take-over offer for the Company under Rule 14 if, as a result of the Company purchasing or acquiring Shares, the voting rights of such Directors and their concert parties would increase to thirty per cent (30%) or more, or, if the voting rights of such Directors and their concert parties fall between thirty per cent. (30%) and fifty per cent. (50%) of the Company's voting rights, the voting rights of such Directors and their concert parties would increase by more than one per cent. (1%) in any period of six (6) months.

Under Appendix 2 of the Take-over Code, a Shareholder not acting in concert with the Directors will not be required to make a take-over offer under Rule 14 if, as a result of the Company purchasing or acquiring its Shares, the voting rights of such Shareholder would increase to thirty per cent. (30%) or more, or, if such Shareholder holds between thirty per cent. (30%) and fifty per cent. (50%) of the Company's voting rights, the voting rights of such Shareholder would increase by more than one per cent. (1%) in any period of six (6) months. Such Shareholder need not abstain from voting in respect of the resolution authorising the Proposed Share Purchase Mandate.

Based on the shareholdings of the Directors in the Company as at the Latest Practicable Date, none of the Directors will become obligated to make a mandatory offer by reason only of the purchase of 2% Shares by the Company pursuant to the Proposed Share Purchase Mandate.

The Directors are not aware of any Shareholder or group of shareholders acting in concert who may become obligated to make a mandatory offer in the event that the Directors exercise the power to repurchase Shares pursuant to the Proposed Share Buy Back Mandate.

Shareholders who are in any doubt as to whether they would incur any obligations to make a take-over offer as a result of any purchase of Shares by the Company pursuant to the Proposed Share Purchase Mandate are advised to consult their professional advisers before they acquire any Shares in the Company during the period when the Proposed Share Purchase Mandate is in force.

The statements herein do not purport to be a comprehensive or exhaustive description of all implications that may arise under the Take-over Code. Shareholders are advised to consult their professional advisers and/or the Securities Industry Council and/or other relevant authorities at the earliest opportunity as to whether an obligation to make a take-over offer would arise by reason of any purchase or acquisition of Shares by the Company.

9.4 Tax Implications

Pursuant to sections 10I and 10J of the Income Tax Act (Cap 134) of Singapore ("**Income Tax Act**"), where a company purchases its own shares and makes payment out of its contributed capital, it will not be regarded as a payment of dividend but a return of capital. Where a company purchases its own shares using its distributable profits, it is deemed as having paid a dividend to the shareholders from whom the shares are purchased or acquired.

In relation to a Market Purchase, in the case of the Company (since it is listed on the SGX-ST), the Company may apply to the SGX-ST for a special trading counter for the purposes of effecting the Market Purchase, subject to approval being obtained from Shareholders for the Share Buy-Back Mandate at the 2013 AGM.

Proceeds received by Shareholders who sell their Shares to the Company in Market Purchases through the special trading counter set up on the SGX-ST will, subject to the fulfillment of certain conditions by the Shareholders, be treated for income tax purposes, in the hands of the Shareholders as the receipt of a dividend. This dividend is exempt from tax under the one-tier corporate tax system, which became effective on 1 January 2003. Under the one-tier corporate tax system, resident companies pay a final income tax on their corporate profits and any distributions of dividends from their corporate profits will be exempt from tax in the hands of its shareholders.

Proceeds received by Shareholders who sell their Shares to the Company in Market Purchases through the normal ready counters will be treated for income tax purposes like any other disposal of shares and not as a dividend. Whether or not such proceeds are taxable in the hands of such Shareholders will depend on whether such proceeds are receipt of an income or a capital nature.

Proceeds received by Shareholders who sell their Shares to the Company in an Off-Market Purchase in accordance with an equal access scheme authorized by the Company, and such Shareholders are not transferees to whom Section 10N of the Income Tax Act applies, will be treated for income tax purposes as the receipt of dividends and therefore exempt from tax in the hands of the Shareholders.

The above statements are general in nature and are based on certain aspects of current tax laws in Singapore which are in force as of the date of this letter and are subject to any changes in such laws, or in the interpretation of these laws occurring after the date of this letter, which changes could be made on a retroactive basis. These statements should not be regarded as a comprehensive description of all the tax considerations that may be relevant to a decision to vote in favour of or against the Share Buy-Back Mandate.

Shareholders should note that the foregoing statements are not to be regarded as advice on the tax position of any Shareholder or on any tax implications arising from the Share Buy-Back Mandate. Shareholders who are in doubt as to their respective tax positions or any such tax implications or who may be subject to tax in a jurisdiction other than Singapore should consult their own professional advisers.

9.5 **Directors and Substantial Shareholders' Interests**

As at the Latest Practicable Date, the interests of Directors and Substantial Shareholders of the Company in the Shares, based on the Company's Register of Directors' Shareholdings and Register of Substantial Shareholders respectively are as follows:

	Direct Interest	**Indirect/ Deemed Interest**	**Total Interest**	
Directors/Substantial Shareholders	**Number of Shares**	**Number of Shares**	**Number of Shares**	**%**
<u>Directors:</u>			55,443,760	
Tien Sing Cheong	34,687,600	-		10.00
Tan Ka Huat	5,901,360	10,000,000		4.59
Gan Chee Yen	1,377,200	-		0.40
Tan Bien Chuan	1,878,800	-		0.54
Tang Martin Yue Nien	1,598,800	-		0.46
Colin Ng Teck Sim	-	-		-
<u>Substantial Shareholders:</u>			97,414,000	
Temasek Holdings (Private) Limited	-	62,726,400		18.09
Temasek Capital (Private) Limited	-	62,726,400		18.09
Seletar Investments Pte Ltd	-	62,726,400		18.09
Republic Technologies Pte Ltd	62,726,400	-		18.09
Tien Sing Cheong	34,687,600	-		10.00

Note:

(1) Based on an issued share capital of 346,793,907, excluding 4,943,000 treasury shares, as at the Latest Practicable Date.

As at the Latest Practicable Date, none of our Directors or Substantial Shareholders will be obliged to make a mandatory take-over offer in the event that the Company purchased the maximum 2% of the issued Shares under the Proposed Share Purchase Mandate.

9.6 **Shares Purchased by the Company**

The Company has not made any market acquisition of ordinary shares in the previous 12 months. As at the latest practicable date, however, the Company has 4,943,000 treasury shares.

10. **Directors' Recommendation**

The Directors are of the opinion that the Proposed Share Purchase Mandate is in the best interest of the Company and accordingly recommend that Shareholders vote in favour of Ordinary Resolution 9 relating to the renewal of the 2012 Share Purchase Mandate to be proposed at the forthcoming 2013 AGM.

11. **Directors' Responsibility Statement**

This letter has been approved by all the Directors who collectively and individually accept full responsibility for the accuracy of the information given this letter and confirm after making all reasonable enquiries that, to the best of their knowledge and belief, this letter constitutes full and true disclosure of all material facts about the proposed renewal of the share purchase mandate, the Company and its subsidiaries, and the Directors are not aware of any facts the omission of which would made any statement in this letter misleading. Where information in the letter has been extracted from published or otherwise publicly available sources or obtained from a named source, the sole responsibility of the Directors has been to ensure that such information has been accurately and correctly extracted from those sources and/or reproduced in the letter in its proper form and context.

12. **Disclaimer**

The SGX-ST assumes no responsibility for the correctness of any of the statements made, reports contained or opinions expressed in this letter.

13. **Documents For Inspection**

The following documents may be inspected at the registered office of the Company during normal business hours from the date hereof up to and including the date of the 2013 AGM:

(a) the Memorandum and Articles of Association of the Company; and

(b) the Annual Report of the Company for the financial year ended 31 December 2012.

Yours faithfully
For and on behalf of
The Board of Directors

Tien Sing Cheong
Chairman

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