BUILDING RESILIENCE TODAY CREATING GROWTH TOMORROW

ANNUAL REPORT 2012

Hi-P INTERNATIONAL LIMITED
赫 比 国 际 有 限 公 司

Hi-P International Limited ("Hi-P") started out in 1980 as a tooling specialist in Singapore and has since grown to become one of the region's largest and fastest-growing integrated contract manufacturers today.

The Group provides one stop solution to customers in various industries, including telecommunications, consumer electronics, computing & peripherals, lifestyle, medical and industrial devices from design, electro-mechanical parts, modules to complete product manufacturing services.

The Group has 14 manufacturing plants globally located across five locations in the People's Republic of China (Shanghai, Chengdu, Tianjin, Xiamen and Suzhou), and in Poland, Singapore and Thailand. Hi-P has marketing and engineering support centers in China, Singapore, Taiwan and the USA.

The Group's customers include many of the world's biggest names in mobile phones, tablets, household & personal care appliances, computing & peripherals, lifestyle, medical devices and industrial devices.

CONTENTS

BOARD OF DIRECTORS

Executive:

Yao Hsiao Tung
(Executive Chairman and Chief Executive Officer)

Wong Huey Fang
(Executive Director and Chief Administrative Officer)

Non-Executive:

Yeo Tiong Eng (Non-Executive Director)
Chester Lin Chien (Independent Director)
Leong Lai Peng (Independent Director)
Gerald Lim Thien Su (Independent Director)

AUDIT COMMITTEE

Gerald Lim Thien Su (Chairman)
Yeo Tiong Eng
Leong Lai Peng

NOMINATING COMMITTEE

Chester Lin Chien (Chairman)
Yeo Tiong Eng
Leong Lai Peng

REMUNERATION COMMITTEE

Leong Lai Peng (Chairman)
Chester Lin Chien
Gerald Lim Thien Su

COMPANY SECRETARY

Tan Ping Ping (Resigned on 15 January 2013)
Tay Chee Wah (Appointed on 15 January 2013)

REGISTERED OFFICE

11 International Business Park
Jurong East Singapore 609926
Tel: (65) 6268 5459
Fax: (65) 6564 1787
Website: www.hi-p.com

SHARE REGISTRAR

Tricor Barbinder Share Registration Services
(a division of Tricor Singapore Pte. Ltd.)
80 Robinson Road
#02-00 Singapore 068898

AUDITOR

Ernst & Young LLP
Certified Public Accountants
One Raffles Quay
North Tower Level 18
Singapore 048583

AUDIT PARTNER-IN-CHARGE

Adrian Koh
(Appointed since financial year ended
31 December 2011)

"Looking into 2013, I am optimistic of the Group's performance. We will regain our growth momentum by diversifying our customer base. We will continue to improve upon our cost structure via automation and lean manufacturing. Last but not least, we will continue to deliver value to our shareholders through profitability and growth. Towards that end, we expect our 2013 turnover and net profit to exceed 2012."

Dear Shareholders,

YEAR IN REVIEW

2012 had been an eventful and volatile year for Hi-P. Macroeconomic uncertainty and the patchy road to economic recovery set a challenging business environment for many companies, including Hi-P.

For the financial year ended 31 December 2012, we recorded a net profit attributable to shareholders of S$18.0 million in FY2012, compared to S$45.0 million previously. Our revenue of S$1.17 billion was comparable to that achieved in FY2011.

Our performance was below our expectations due to the following internal and external factors:

- Consumer demands are difficult to grasp in the highly competitive smartphone and tablet space and this led to volatile order forecasts from our customers. This is a predicament faced by Hi-P, as well as many of our competitors.
- The dynamic market conditions and volatile order forecasts meant that we need to further strengthen the coordination between the Group's Business Development, Project Management and Operations functions. Under our previous centralized structure, as customers' production orders changes and demand fluctuate, we were unable to rapidly adjust our capacity and manpower. This led to lower productivity and increased idle capacities at some of our plants.
- There were unexpected delays in our customers' projects during the third quarter of the year, traditionally our busiest season. As a result, we incurred higher-than-expected operating costs and failed to meet economics of scale for some of our plants.

As such, we were overly optimistic on our expected utilisation for 2012 and this led to unnecessary capital expenditure, increasing our overheads and denting our bottomline.

After an extensive internal review and organization restructuring, I would like to share with you our strategy to overcome our challenges so as to resume our growth trajectory.

OUR STRATEGY AND EXPECTED RESULTS

Our new organization structure will see the delegation and decentralization of the Business Development function to the Group's three business units – Mechanical Business, OEM/ Flex, and EMS/ ODM.

Under the new structure, we expect significantly improved coordination between Business Development, Project Management and Operations as these three key functions are now assigned to the individual business unit heads. The business unit heads are given the flexibility and responsibility to react to market demands and market the Group's capabilities to existing and new customers.

In particular, this new structure will ensure that the Group's production capacity and capabilities are better utilised for the four sites under the Group's Mechanical Business unit, being Shanghai, Suzhou, Nantong and Overseas (comprising of the Group's Singapore, Thailand, Xiamen and Poland operations).

Our organisation restructuring has already begun since the end of 2012 and the Group is already seeing improvements in two important areas.

Firstly, the new structure promotes coordination among the Business Development, Project Management and Operations personnel at each site and ensures full accountability of the different operations and processes. We can expect to gain momentum on business development, cost control and productivity. Overall, this strategy is expected to improve the individual business units' profitability as well as Return on Net Assets. This is the Group's key metric in which individual business unit heads are measured by.

Secondly, we are positive that our new structure will not only allow our existing customers to regain confidence but it will also bring in more new customers as well. To assure our customers that we have the ability to cater to their demands, we are currently building a new plant in Nantong, China, to increase our production capacities and capabilities. Construction of the plant with a built up area of approximately 50,000 sq m is expected to finish by end 2013. Once completed, this new site will allow the Group to better support new and existing customers which are mainly in the smartphones and tablets space.

CHARTING THE ROAD AHEAD

The world of technology is fast moving. Identifying long term trends and adapting to them is the key to survival. This is where we have been traditionally strong in. Leveraging on innovation, we have been successful in developing new processes and technologies that are in line with new market trends and demand.

As identified by technology research firm Gartner, 2013 will continue to see strong growth in the smartphones and tablets market. To this end, our emphasis on innovation will allow us to provide our existing and potential customers, who are market leaders in the smartphones and tablets market, with quality and reliable components to address their needs.

Looking into 2013, I am optimistic of the Group's performance. We will regain our growth momentum by diversifying our customer base. We will continue to improve upon our cost structure via automation and lean manufacturing. Last but not least, we will continue to deliver value to our shareholders through profitability and growth. Towards that end, we expect our 2013 turnover and net profit to exceed 2012.

Our long-term goal is to achieve a sustainable growth rate and be one of the top contract manufacturers in Asia, by providing a one-stop solution to fulfill our customers' needs - from industrial design, component manufacturing to high-level assembly.

APPRECIATION AND DIVIDEND

I would like to take this opportunity to extend my utmost appreciation to the shareholders, Board of Directors, customers, suppliers and business associates for your unwavering support.

I am pleased to announce that the Board has recommended a first and final dividend of 1.2 Singapore cents per ordinary share, subject to shareholders' approval, at the upcoming Annual General Meeting. I look forward to meeting you at our Annual General Meeting on 29 April 2013.

Mr Yao Hsiao Tung
Executive Chairman and Chief Executive Officer
Hi-P International Limited
3 April 2013

OPERATIONS AND FINANCIAL REVIEW

"The Group's financial position remains strong with cash and cash equivalents and short term deposits pledged of S$177.5 million as at 31 December 2012."

The Group's posted revenue of S$1.17 billion in 2012 which was marginally lower as compared to 2011 revenue of S$1.2 billion. This was mainly due to lower sales volumes.

Gross profit decreased by 25.2% to S$97.9 million mainly due to:

- Lower revenue
- Increased labour costs
- Increased start-up costs for new projects
- Increased depreciation as a result of higher capital expenditure
- Increased allowance for inventory obsolescence

Total selling and distribution and administrative expenses went up marginally by 8.4% to S$85.8 million mainly due to higher staff costs and provision for warranty costs.

Net interest income decreased 17.2% to S$2.8 million mainly due to a decrease in net cash position.

Other expenses decreased by 38.2% to S$5.9 million mainly due to minimal impairment loss on property, plant and equipment of S$0.4 million (2011: S$7.9 million). The decrease in other expenses was partially offset by the increase in net foreign exchange loss and loss on disposal of investment in a subsidiary.

The higher net foreign exchange loss of S$6.3 million (2011: S$3.5 million) arose mainly from depreciation of USD and RMB against SGD and depreciation of USD against RMB. The Group also recorded a higher net fair value gain on derivatives of S$4.5 million (2011: S$3.5 million), which was mainly due to the lower forward rate caused by depreciation of USD against RMB as compared with the contract rate.

Income tax expenses decreased by 68.1% to S$4.6 million mainly due to lower profits and tax credits in certain China's subsidiaries due to concessionary tax rates obtained in 2012 which are applicable for period starting from 2011 to 2013. As such, the effective tax rates decreased to 20.4% (2011: 24.3%).

As a result of the above factors, the Group achieved a net profit after tax of S$18.0 million in 2012.

Net cash generated from operating activities before working capital changes was S$100.0 million (2011: S$124.9 million). Net cash used in operating activities was S$13.3 million in 2012 mainly due to:

- Increase in inventory
- Increase in trade and other receivables
- Decrease in trade and other payables

Net cash used in investing activities was S$142.7 million (2011: S$56.2 million) mainly due to net cash outflow for purchase of property, plant and equipment amounting to S$151.0 million.

Our current year additions of property, plant and equipment of S$166.5 million was more or less in line with our planned capital expenditure of S$180.0 million as forecasted in 1Q2012.

Net cash generated from financing activities was S$71.0 million (2011: net cash used in financing activities was S$1.6 million). This was mainly due to decrease in short term deposits pledged with banks amounting to S$64.2 million, proceeds from loans and borrowing amounting to S$31.2 million, offset by dividend payment of S$19.8 million and repayment of interest of S$4.0 million.

The Group's financial position remains strong with cash and cash equivalents and short term deposits pledged of S$177.5 million as at 31 December 2012. Debt was S$144.3 million, resulting in a net cash position of S$33.2 million.

MR YAO HSIAO TUNG

MR YAO HSIAO TUNG is the ***Executive Chairman*** and ***Chief Executive Officer*** of the Group. He was appointed to the Board in May 1983. He is responsible for formulating the strategic directions of the Group as well as overall management of the operations. Mr Yao has more than 40 years of experience in the precision tooling and plastic injection molding industry. He was a technical service manager with Du Pont Singapore Electronics Pte Ltd before joining the Group. Mr Yao was conferred an Honorary Doctorate by his Alma Mater, National Kaohsiung University of Applied Sciences, on 25 October 2009.

MDM WONG HUEY FANG

MDM WONG HUEY FANG is an ***Executive Director*** and ***Chief Administrative Officer*** of the Group. Her key responsibilities include managing our Group's administrative and public relations functions. She was appointed to the Board in January 1988. Prior to joining our Group in 1985, Mdm Wong was a purchaser with Taiwan-based Aven Electronics Co Ltd.

MR YEO TIONG ENG

MR YEO TIONG ENG is a ***Non-Executive Director*** of the Group and was appointed to the Board in April 1987. Mr Yeo is currently the Vice President of Finance of Molex Global Commercial Products Division. Mr Yeo graduated with a Bachelor's Degree in Accountancy from Nanyang University. He also holds a Masters of Business Administration (Business Law) from Nanyang Technological University. Mr Yeo is a member of the Institute of Certified Public Accountants of Singapore. He also serves as a member to Nanyang Business School Undergraduate Advisory Board.

MR CHESTER LIN CHIEN

MR CHESTER LIN CHIEN is an ***Independent Director*** of the Group and was appointed to the Board in August 2004. Mr Lin was previously the Executive Vice President and President of Solectron's Asia Pacific region. Prior to joining Solectron, he was the Chief Executive Officer of NatSteel Electronics from 1993 to 2001. Previously, Mr Lin also worked with SCI Systems, General Electric and General Instruments (Taiwan). Mr Lin holds a Bachelor's degree in Electrical Engineering from the Taipei Institute of Technology.

MRS JENNIFER YEO

MRS JENNIFER YEO *(Madam Leong Lai Peng)* is an ***Independent Director*** of the Group and was appointed to the Board in November 2006. She chairs the board of directors of Yeo-Leong & Peh LLC, the successor of the partnership and before that the sole proprietorship which she set up in 1987. She graduated from the National University of Singapore in 1981 with LL.B (Honours) and from Boston University in 1985 with LL.M in Banking Law Studies. She was admitted to the Singapore Bar in 1982 and is also a Solicitor of England and Wales. She is a fellow of the Singapore Institute of Arbitrators and the Chartered Institute of Arbitrators. Mrs Yeo is the director of Viva Foundation for Children with Cancer, which she founded in 2006. It is a Singapore charity with the status of Institution of Public Character.

MR GERALD LIM THIEN SU

MR GERALD LIM THIEN SU, PBM, is an ***Independent Director*** of the Group and was appointed to the Board in November 2010. Mr Lim is the Chief Executive Officer (South East Asia) of Marsh, the President of the Singapore Insurance Brokers Association, and Honorary Consul of the Republic of Slovenia. He also serves as Chairman of Tampines Central Citizens Consultative Committee, and member of the Council of Education of the Methodist Church in Singapore. Mr Lim also sits on the Boards of Ju Eng Home for Senior Citizens, St. Andrew's School, and St. Francis Methodist School. Mr Lim did his undergraduate studies at National University of Singapore, obtained an M.A. in Education from George Washington University, and attended executive development programmes at Insead (France) and Kellogg (Chicago).

SAMUEL YUEN CHUNG SANG
Chief Financial Officer

SAMUEL YUEN CHUNG SANG is our ***Chief Financial Officer*** and is responsible for the overall financial operations and management. Prior to joining the Group on 26 June 2006, Mr Yuen was the Executive Director & CFO of SGX-listed Fu Yu Corporation Limited, a precision plastic injection molding and mold-making company. Prior to that, he had worked extensively in China and Hong Kong. His previous experience included finance and general management experience in various industries such as freight forwarding, hotel and property investment and trading. He holds a Bachelor of Business Administration degree (major in Accounting) from the Chinese University of Hong Kong and a Masters of Business Administration degree (major in Finance) from Dalhousie University, Canada. Mr Yuen is a member of the Singapore Institute of Directors.

GARY HO HOCK YONG
Chief Operating Officer (OEM & Flex Business Unit)

GARY HO HOCK YONG is our ***Chief Operating Officer (OEM & Flex Business Unit)***. He has been with the Group since April 1996 and had previously assumed the roles of Regional Sales Manager, Corporate Business Manager & Marketing Director, Managing Director for Wireless SBU, Managing Director for Corporate Business Development and Chief Operating Officer (Operation and Supply Chain Management) within the group. Mr Ho holds a Diploma in Production Technology from the German Singapore Institute.

HOLDING COMPANY

Hi-P International Limited
11 International Business Park,
Jurong East, Singapore 609926

SUBSIDIARIES – SINGAPORE

Hi-P Flex Pte. Ltd.
11 International Business Park,
Jurong East, Singapore 609926

Hi-P Electronics Pte. Ltd.
11 International Business Park,
Jurong East, Singapore 609926

Hi-P (Singapore) Technology Pte. Ltd.
11 International Business Park,
Jurong East, Singapore 609926

SUBSIDIARIES - NORTH CHINA

Hi-P Tianjin Electronics Co., Ltd.
Factory 9, No.29 XinYe 3rd Street
West Developing Zone of TEDA
Tianjin, the PRC

Hi-P (Tianjin) Precision Mold & Die Co., Ltd.
Factory 8, No.29 XinYe 3rd Street
West Developing Zone of TEDA
Tianjin, the PRC

Hi-P (Tianjin) Technology Co., Ltd.
Factory 7, No.29 XinYe 3rd Street
West Developing Zone of TEDA
Tianjin, the PRC

Qingdao Haier Hi-P Science Technology Co., Ltd.
Haier Industrial Park,
1 Haier Road, Qingdao, the PRC

SUBSIDIARIES - SOUTH CHINA

Hi-P (Xiamen) Precision Plastic Manufacturing Co., Ltd.
No.5 Haijingdongsan Road,
Exporting Processing Zone,
Xinggang Road, Haicang, Xiamen City

SUBSIDIARIES - EAST CHINA

Hi-P (Shanghai) Automation Engineering Co.,Ltd.
Building 8, 1006 Jinmin Road,
Jinqiao Export & Processing Zone,
Pudong New Area, Shanghai, the PRC

Hi-P Lens Technology (Shanghai) Co., Ltd.
No.4F, 955 Jin Hai Road, Pudong New
District, Shanghai, the PRC

Hi-P Precision Plastic Manufacturing (Shanghai) Co., Ltd.
77 Block 3, 1st floor Area A Jin Wen Road,
Zhu Qiao Kong Gang Industrial, Pudong
New District, Shanghai, the PRC

Hi-P Shanghai Electronics Co., Ltd.
77 Block 3, 1st floor Area B Jin Wen Road,
Zhu Qiao Kong Gang Industrial, Pudong
New District, Shanghai, the PRC

Hi-P (Shanghai) Housing Appliance Co., Ltd.
Building 4/5/6, 79 Jinwen Road, Zhu Qiao
Kong Gang Industrial, Pudong New District,
Shanghai, the PRC

Hi-P (Shanghai) Precision Metal Co., Ltd. (previously known as Hi-P (Shanghai) Industries Co., Ltd.)
No.38 Jinliang Road Shanghai Zhuqiao
Airport Industrial Nanhui District,
Pudong New Area, Shanghai, the PRC

Hi-P (Shanghai) Precision Mold & Die Co., Ltd.
Building 3 and 4, 1006 Jinmin Road,
Jinqiao Export & Processing Zone,
Pudong New Area, Shanghai, the PRC

Hi-P (Shanghai) Stamping Mold & Component Industries Co., Ltd.
No.96 Jinwen Road Shanghai Zhuqiao
Airport Industrial Nanhui District,
Pudong New District, Shanghai, the PRC

Hi-P (Shanghai) Technology Co., Ltd.
No.4F, 955 Jin Hai Road, Pudong New
District, Shanghai, the PRC

Hi-P (Suzhou) Electronics Co., Ltd.
No. 199, Factory 1, Jin Feng Road,
Suzhou National New & Hi-Tech Industrial
Development Zone, Jiangsu, the PRC

Hi-P (Suzhou) Electronics Technology Co., Ltd.
No.86 Liu Feng Road, He Dong Industry
Park, Guo Xiang Street, Wu Zhong District,
Suzhou, the PRC

Hi-P (Suzhou) Precision Mold & Die Co., Ltd.
No.86 Liu Feng Road, He Dong Industry
Park, Guo Xiang Street, Wu Zhong District,
Suzhou, the PRC

Hi-P (Nantong) Technology Co., Ltd.
No.3, Shanghai Road, Nantong
Economic & Technological Development
Area, Jiangsu, the PRC

SUBSIDIARIES - WEST CHINA

Hi-P (Chengdu) Mold Base Manufacturing Co., Ltd.
B4 Unit Mould Industrial Park Encircle
Road, Hongguang Town West Park
Chengdu High-Tech Development Zone,
Chengdu, the PRC

Hi-P (Chengdu) Precision Plastic Manufacturing Co., Ltd.
B4 Unit Mould Industrial Park
Encircle Road, Hongguang Town West
Park
Chengdu High-Tech Development Zone,
Chengdu, the PRC

SUBSIDIARIES – AMERICA

Hi-P North America, Inc.
P.O. Box 59806, Schaumburg
IL 60159-0806

High Precision Moulding and Tools, S.A. de C.V.
Tenacatita no.2 El Tapatio Tlaquepaque,
Jalisco, Mexico
CP. 45588

SUBSIDIARIES – OTHER

Hi-P Technology Co., Ltd.
9F., No.183, Gangqian Rd., Neihu
District, Taipei City 11494, Taiwan,
Republic of China

Hi-P (Thailand) Co., Ltd.
Amata City Industrial Estate, 7/132,
Moo 4, Tambon Mabyangporn, Amphur
Pluakdaeng, Rayong 21140, Thailand

Hi-P Poland SP. ZO.O.
ul. Magazynowa 8, Bielany Wrocławskie
55-040 Kobierzyce, Poland

ASSOCIATED CO.

Design Exchange Pte. Ltd.
67 Ayer Rajah Crescent,
#03-25/26, Singapore 139950

Express Tech Mfg Pte. Ltd.
5004 Ang Mo Kio Avenue 5,
#02-01 Tech Place II,
Singapore 569872

Hi-P International Limited (the "Company") is committed to achieving a high standard of corporate governance within the Group. The Company continues to evaluate and to put in place effective self-regulatory corporate practices to protect its shareholders' interests and enhance long-term shareholders' value. The Board is pleased to report on the Company's corporate governance processes and activities as required by the Code of Corporate Governance 2005 (the "Code") prescribed by the Singapore Exchange Securities Trading Limited ("SGX-ST"). For easy reference, sections of the Code under discussion are specifically identified. However, this Report should be read as a whole as other sections of this Report may also have an impact on the specific disclosures.

BOARD MATTERS

Principle 1: Board's Conduct of its Affairs

The Board of Directors (the "Board") comprises the following members:

Executive Directors

Mr Yao Hsiao Tung
Mdm Wong Huey Fang

Non-executive Directors

Mr Yeo Tiong Eng

Independent Directors

Mr Chester Lin Chien
Mdm Leong Lai Peng
Mr Gerald Lim Thien Su

Apart from its statutory duties and responsibilities, the Board performs the following functions:-

(a) provide entrepreneurial leadership, set strategic aims, and ensure that the necessary financial and human resources are in place for the Group to meet its objectives;

(b) establish a framework of prudent and effective controls which enables risk to be assessed and managed;

(c) review management performance;

(d) set the Group's values and standards, and ensure that obligations to shareholders and others are understood and met;

(e) nomination of Directors to the Board;

(f) appointment of key personnel;

(g) review the financial performance of the Group and implementing policies relating to financial matters, which include risk management and internal control and compliance; and

(h) assuming responsibility for corporate governance.

These functions are carried out either directly or through Board Committees such as the Nominating Committee, the Remuneration Committee and the Audit Committee.

Matters which are specifically reserved to the full Board for decision are those involving a conflict of interest for a substantial shareholder or a Director, material acquisitions and disposal of assets, corporate or financial restructuring, share issuance and dividends, and financial results and corporate strategies.

Formal Board meetings are held at least once every quarter to oversee the business affairs of the Group, and to approve, if applicable, any financial or business objectives and strategies. Ad-hoc meetings are convened when circumstances require. The Company's Articles of Association allow a Board meeting to be conducted by way of tele-conference and video-conference.

During the financial year, the Board held four meetings and the attendance of each Director at every Board and Board Committee meeting is as follows:-

	Board		Audit Committee		Nominating Committee		Remuneration Committee	
Name	No. of meetings held	No. of meetings attended	No. of meetings held	No. of meetings attended	No. of meetings held	No. of meetings attended	No. of meetings held	No. of meetings attended
Mr Yao Hsiao Tung (Executive Chairman and Chief Executive Officer)	4	4	–	–	–	–	–	–
Mdm Wong Huey Fang (Executive Director and Chief Administrative Officer)	4	4	–	–	–	–	–	–
Mr Yeo Tiong Eng (Non-executive Director)	4	4	4	4	1	1	–	–
Mr Chester Lin Chien (Independent Director)	4	4	–	–	1	1	1	1
Mdm Leong Lai Peng (Independent Director)	4	3	4	3	1	0	1	0
Mr Gerald Lim Thien Su (Independent Director)	4	4	4	4	–	–	1	1

All Directors are provided with regular updates on changes in the relevant laws and regulations to enable them to make well-informed decisions and to ensure that the Directors are competent in carrying out their expected roles and responsibilities.

Management would conduct briefings and orientation programmes to familiarise newly appointed Directors with the various businesses, operations and processes of the Group.

Principle 2: Board Composition and Guidance

The Board comprises six Directors, one of whom is a non-executive Director and three of whom are independent Directors. The independence of each Director will be reviewed annually by the Nominating Committee. The Nominating Committee adopts the Code's definition of what constitutes an independent Director in its review.

The Board will constantly examine its size and, with a view to determining the impact of the number upon effectiveness, decide on what it considers an appropriate size for the Board, which facilitates effective decision-making. The composition of the Board will be reviewed on an annual basis by the Nominating Committee to ensure that the Board has the appropriate mix of expertise and experience.

The Board, taking into account the nature of the Company's operations, considers its current size to be adequate for effective decision-making.

Non-executive and independent directors constructively challenge and help develop proposals on strategy and review the performance of management in meeting agreed goals and objectives and monitor the reporting of performance.

Key information regarding the Directors' academic and professional qualifications and other appointments is set out on page 5 of this Annual Report.

Principle 6: Access to Information

To assist the Board in fulfilling its responsibilities, the Board is provided with management reports containing relevant background or explanatory information required to support the decision-making process. The Management will continue to improve its process in providing complete, adequate and timely information to the Board prior to each Board meeting. The Board is also provided with management accounts of the Group's performance, position and prospects on a quarterly basis.

The Board has separate and independent access to senior management and the Company Secretary at all times. The Company Secretary attends all Board meetings and ensures that all Board procedures are followed. The Company Secretary also ensures that the Company complies with the requirements of the Companies Act and the SGX-ST. The appointment and removal of the Company Secretary is a matter of the Board as a whole.

If any of the Directors require independent professional advice in the furtherance of their duties, the cost of such professional advice will be borne by the Company.

Principle 3: Chairman and Chief Executive Officer

The Board recognizes the Code's recommendation that the Chairman and the Chief Executive Officer ("CEO") should be separate persons for appropriate balance of power and authority. However, the Board is also of the view that adopting a single leadership structure, i.e. where the CEO and the Chairman of the Board is the same person, would effectively improve the efficiency in decision-making and execution process of the Group. Furthermore, four out of the six Board members are independent and/ or non-executive Directors and all the Board committees are chaired by the independent Directors. As such, the Board believes that there is still a good balance of power and authority within the Board and no individual or small group can dominate the Board's decision-making process.

Mr Yao Hsiao Tung is the Group's Chairman and CEO who is responsible for providing guidance on the corporate and business direction of the Group, scheduling and chairing of Board meetings, monitoring the quality, quantity and timeliness of information flow between the Board and the management, as well as managing the day-to-day operations of the Group with the help of senior management. Mr Yao is the founder of the Group and has played a key role in developing the Group's business. Through the Group's successful business development in the last few years, Mr Yao has demonstrated his vision, strong leadership and enthusiasm in the Group's business.

The Board is of the view that there are sufficient safeguards and checks to ensure that the process of decision-making by the Board is independent and based on collective decisions without any individual exercising any considerable concentration of power or influence.

BOARD COMMITTEES

Nominating Committee ("NC")

Principle 4: Board Membership
Principle 5: Board Performance

The current NC comprises the following 3 members, all non-executive, of whom 2, including the Chairman, are independent Directors:

(a) Mr Chester Lin Chien (Chairman);
(b) Mr Yeo Tiong Eng; and
(c) Mdm Leong Lai Peng.

The Board has approved the written terms of reference of the NC. Its functions are as follows:-

(a) recommending and reviewing candidates for appointment to the Board;

(b) reviewing candidates nominated for appointment as senior management staff;

(c) reviewing and recommending to the Board on an annual basis, the Board structure, size and composition, taking into account the balance between executive and non-executive, independent and non-independent Directors and having regard at all times to the principles of corporate governance and the Code;

(d) procuring that at least one-third of the Board shall comprise independent Directors;

(e) making recommendations to the Board on continuation of service of any Director who has reached the age of 70;

(f) identifying and making recommendations to the Board as to the Directors who are to retire by rotation and to be put forward for re-election at each Annual General Meeting ("AGM") of the Company, having regard to the Directors' contribution and performance, including independent Directors;

(g) determining whether a Director is independent (taking into account the circumstances set out in the Code and other salient factors); and

(h) proposing a set of objective performance criteria to the Board for approval and implementation, to evaluate the effectiveness of the Board as a whole and the contribution of each Director to the effectiveness of the Board.

Where a vacancy arises under any circumstances, or where it is considered that the Board would benefit from the services of a new director with particular skills, the NC, in consultation with the Board, determines the selection criteria and selects candidates with the appropriate expertise and experience for the position.

The NC has adopted a formal process for the evaluation of the performance of the Board. In 2004, the Group implemented the Board-approved evaluation process and performance criteria to assess the performance of the Board. The performance criteria includes an evaluation of the size and composition of the Board, the Board's access to information, accountability, Board processes and Board performance in relation to discharging its principal responsibilities in terms of the financial indicators as set out in the Code.

The assessment process involves and includes input from the Board members, applying the performance criteria recommended by the NC and approved by the Board. The Directors' input is reviewed by the NC. Areas where the Board's performance and effectiveness could be enhanced and recommendations for improvement are then submitted to the Board for discussion and for implementation.

The NC assessed the Board's performance as a whole in FY2012 and is of the view that the performance of individual members of the Board and the Board as a whole was satisfactory. Although some of the Board members have multiple board representations, the NC is satisfied that sufficient time and attention has been given by the Directors to the Group.

All Directors are subject to the provisions of the Company's Articles of Association whereby one-third of the Directors are required to retire and subject themselves to re-election by shareholders at every AGM.

Mr Yeo Tiong Eng and Mr Gerald Lim Thien Su are subject to retirement pursuant to the Company's Articles of Association at the forthcoming AGM. The NC recommended that Mr Yeo Tiong Eng and Mr Gerald Lim Thien Su be nominated for re-election at the forthcoming AGM. The NC also recommended Mr Yao Hsiao Tung and Mr Chester Lin Chien, who are over the age of 70, for re-appointment at the forthcoming AGM.

In making the recommendation, the NC had considered the Directors' overall contribution and performance.

Remuneration Committee ("RC")

Principle 7: Procedures for Developing Remuneration Policies
Principle 8: Level and Mix of Remuneration
Principle 9: Disclosure of Remuneration

The current RC comprises the following 3 members, all of whom are independent Directors:

(a) Mdm Leong Lai Peng (Chairman);
(b) Mr Chester Lin Chien; and
(c) Mr Gerald Lim Thien Su.

The Board has approved the written terms of reference of the RC. Its functions are as follows:-

(a) recommending to the Board a framework of remuneration for the Board and key executives of the Group (as required by law and/ or the Code) which shall include the disclosure of details of the Company's remuneration policy, level and mix of remuneration and procedure for setting remuneration and details of the specific remuneration packages such as Director's fees, salaries, allowances, bonuses, options and benefits-in-kind;

(b) proposing to the Board appropriate and meaningful measures for assessing the executive Directors' performance; and

(c) considering the eligibility of Directors for benefits under long-term incentive schemes.

In carrying out the above, the RC may obtain independent external legal and other professional advice as it deems necessary. The expenses of such advice shall be borne by the Company.

The Company sets remuneration packages which:

(a) align interests of executive directors with those of shareholders;

(b) link rewards to corporate and individual performance; and

(c) are competitive and sufficient to attract, retain and motivate Directors and senior management with adequate experience and expertise to manage the business and operations of the Group.

The remuneration paid and payable to the Directors during the financial year ended 31 December 2012 are as follows:

Remuneration Bands and Names of Directors	Salary %	Performance Bonus %	Director's fee %	Others %	Total %
S$1,000,000 - S$1,100,000					
Yao Hsiao Tung	76	16	7	1	100
S$300,000 – S$400,000					
Wong Huey Fang	74	13	13	–	100
Below S$100,000					
Yeo Tiong Eng	–	–	100	–	100
Chester Lin Chien	–	–	100	–	100
Leong Lai Peng	–	–	100	–	100
Gerald Lim Thien Su	–	–	100	–	100

The remuneration paid to the executive officers (who are not directors of the Company) during the financial year ended 31 December 2012 is as follows:

Remuneration Bands and Names of Officers	Salary %	Performance Bonus %	Others %	Total %
S$500,000 – S$600,000				
Gary Ho Hock Yong	77	14	9	100
S$400,000 – S$500,000				
Samuel Yuen Chung Sang	83	14	3	100
Tjoa Mui Liang*	76	15	9	100

* Mr Tjoa Mui Liang had resigned from the Group with effect from 5 February 2013.

No Director is involved in determining his own remuneration. The remuneration of the non-executive and independent Directors is in the form of a fixed fee.

The executive Directors have service agreements with the Company. Their compensation consists of salary, bonus, fixed fee and incentive bonus that is dependent on the Group's performance.

The directors' fees, as a lump sum, will be subject to approval by shareholders at the forthcoming AGM.

Other than the brother of Mr Yao Hsiao Tung, there are no employees of the Group who are immediate family members of a Director or CEO, whose remuneration exceeded S$150,000 during the year.

The Company has a share option scheme known as Hi-P Employee Share Option Scheme (the "Option Scheme") and a share award scheme known as Hi-P Employee Share Award Scheme (the "Award Scheme") which were approved by shareholders of the Company on 7 October 2003 and 23 April 2009 respectively. The Option Scheme and the Award Scheme comply with the relevant rules as set out in Chapter 8 of the Listing Manual. The two schemes will provide eligible participants with an opportunity to participate in the equity of the Company and to motivate them towards better performance through increased dedication and loyalty. Both schemes are administered by the RC. No awards have been issued since the adoption of the Award Scheme to the end of the last financial year. Further information on the Option Scheme and Award Scheme can be found on pages 20 to 23 of this Annual Report.

Audit Committee ("AC")

Principle 11: Audit Committee

The current AC comprises the following 3 members, all non-executive, of whom 2, including the Chairman, are independent:

(a) Mr Gerald Lim Thien Su (Chairman);
(b) Mr Yeo Tiong Eng; and
(c) Mdm Leong Lai Peng.

The Board has approved the written terms of reference of the AC. Its functions are as follows:-

(a) reviewing and evaluating financial and operating results and accounting policies;

(b) reviewing audit plan of external auditor, its evaluation of the system of internal financial controls that came to its attention during the course of its normal audit and its audit report;

(c) reviewing the Group's financial results and the announcements before submission to the Board for approval;

(d) reviewing the assistance given by the management to external auditor;

(e) considering the appointment/ re-appointment of external auditor;

(f) reviewing interested person transactions; and

(g) other functions as required by law or the Code.

The AC meets regularly and also holds informal meetings and discussions with the management from time to time. The AC has full discretion to invite any Director or executive officer to attend its meetings.

The AC has been given full access to and is provided with the cooperation of the Company's management. In addition, the AC has independent access to the external auditor. The AC meets with the external auditor without the presence of management to review matters that might be raised privately. The AC has reasonable resources to enable it to discharge its functions properly.

The AC has reviewed the volume of non-audit services to the Group by the external auditor, and being satisfied that the nature and extent of such services will not prejudice the independence and objectivity of the external auditor, is pleased to recommend its re-appointment. The breakdown of its fees for audit and non-audit services is found on Note 9 to the financial statements on page 60. The AC is satisfied that the Group has complied with Rule 712 and Rule 716 of the Listing Manual in relation to the appointment of auditing firms.

Whistle-blowing Policy

The AC has established and put in place a whistle-blowing policy and procedures to provide employees and external parties with well defined and accessible channels within the Group for reporting suspected fraud, corruption, dishonest practices or other similar matters or raise serious concerns about possible incorrect financial reporting or other matters that could have an adverse impact on the Company. The aim of this policy is to encourage the reporting of such matters in good faith, with the confidence that employees making such reports will be treated fairly and, to the extent possible, be protected from reprisal. In promoting and creating awareness, the whistle-blowing policy and procedures are posted on the Company's intranet and a summarized version thereof on the Company's website so that employees as well as external parties can have access at all times to the information in the policy.

The AC exercises the overseeing function over the administration of the policy while the Whistle-Blowing Committee administers the policy. Quarterly reports will be submitted to the AC stating the number and nature of complaints received, the results of the investigation, follow up actions and the unresolved complaints.

Principle 12: Internal Controls

The Group's internal controls and systems are designed to provide reasonable, but not absolute assurance to the integrity and reliability of the financial information and to safeguard and maintain the accountability of the assets.

The Board, assisted by the AC, has oversight of the internal controls and risk management system in the Group and for reviewing its adequacy and effectiveness.

In recent years, the Company's rapid growth had added new challenges to its control systems. However, strong commitment from the Board and senior management has led to improvements in the overall internal control and thus strengthened the Group's execution foundation. The focus on embedding quality management systems, assurance processes, training and performance monitoring has seen tangible improvements in the maturity and standardization of policies, systems, processes and procedures throughout the Group.

The Board of Directors and the Audit Committee has reviewed the adequacy of the Group's internal controls, including financial, operational and compliance controls. Based on the internal controls established and maintained by the Group, the internal and/ or external auditors' reports, the summary of comfort matrix of the Group's key risks referred to below under "Risk Management" and reviews performed by the management, the Board, with the concurrence of the Audit Committee, is of the opinion that the Group's internal controls were adequate as at 31 December 2012 in addressing the financial, operational and compliance risks of the Group in the current business environment.

The Board notes that a system of internal control and risk management is designed to manage rather than to eliminate the risk of failure to achieve business objectives and can provide only reasonable and not absolute assurance against material misstatement or loss and therefore no cost effective internal control system will preclude all errors, including poor judgment in decision making and irregularities.

Risk Management
(Listing Manual Rule 1207(4)(b)(iv))

The AC examines the effectiveness of the Group's internal control systems. The number of assurance mechanisms currently operating is supplemented by the Company's internal and/ or external auditors' annual reviews of the effectiveness of the Company's material internal controls, including financial, operational and compliance controls. The external auditor reports to the AC on matters relating to internal financial controls which came to its attention during the course of its normal audit. Any material non-compliance or failures in internal controls and recommendations for improvements are reported to the AC. The AC reviews the effectiveness of the actions taken by the management on the recommendations made by the internal and external auditor in this respect.

During the year under review, in addition to the work carried out by the external auditor and internal auditor, the Board also engaged Messrs PricewaterhouseCoopers LLP to review the framework documented by the Company which assists management to address the financial, operational and compliance risks of the key operating units of the Group. The process involved the identification of the major financial, operational and compliance risks in the various business units as well as the countermeasures in place or required to mitigate such risks. These are summarized and documented using a comfort matrix of key risks, for review by the Board. The summary of comfort matrix provides an overview of the Group's key risks, how they are managed, the key personnel responsible for each identified risk type and the various assurance mechanisms in place.

Principle 13: Internal Audit

The internal audit function has been outsourced to Messrs PricewaterhouseCoopers LLP ("internal auditor"). The internal auditor reports directly to the AC on audit matters and to the Executive Chairman on administrative matters.

The objective of the internal auditor is to provide an independent review of the effectiveness of the Group's internal controls and provide guidance to the AC and the management with a view to ensure that the Group's risk management, controls and governance processes are adequate and effective.

The AC has reviewed with the internal auditor its audit plans, its evaluation of the system of internal controls, its audit findings and management's responses to those findings; the effectiveness of material internal controls, including financial, operational and compliance controls and overall risk management of the Company and the Group. The AC is satisfied that the internal audit is adequately resourced and has appropriate standing within the Group.

COMMUNICATION WITH SHAREHOLDERS

Principle 10: Accountability and Audit
Principle 14: Communication with Shareholders
Principle 15: Greater Shareholder Participation

The Company recognises that effective communication can highlight transparency and enhance accountability to its shareholders. The Company provides information to its shareholders via SGXNET announcements, news releases and the Company's website. Price-sensitive information is publicly released on an immediate basis where required under the Listing Manual. Where an immediate announcement is not possible, the announcement is made as soon as possible to ensure that shareholders and the public have a fair access to the information.

The AGM of the Company is a principal forum for dialogue and interaction with all shareholders. All shareholders will receive the Annual Report and the notice of AGM. At the AGM, shareholders will be given the opportunity to voice their views and to direct questions regarding the Group to the Directors including the chairpersons of each of the Board committees. The external auditor is also present to assist the Directors in addressing any relevant queries from the shareholders.

The Company ensures that there are separate resolutions at general meetings on each distinct issue.

The Company's Articles of Association allow a member of the Company to appoint one or two proxies to attend and vote at its general meetings.

Securities Transactions
(Listing Manual Rule 1207(19))

The Group has adopted the SGX-ST's best practices with respect to dealings in securities by the Directors and its executive officers. Directors, management and officers of the Group who have access to price-sensitive, financial or confidential information are not permitted to deal in the Company's shares during the periods commencing two weeks before the announcement of the Company's financial statements for each of the first three quarters of its financial year, or one month before the announcement of the Company's financial statement for the full financial year, as the case may be, and ending on the date of announcements of the relevant results, or when they are in possession of unpublished price-sensitive information on the Group. To provide further guidance to employees on dealings in the Company's shares, the Company has adopted a code of conduct on transactions in the Company's shares.

Material Contracts
(Listing Manual Rule 1207(8))

Save for the service agreements between Mr Yao Hsiao Tung and Madam Wong Huey Fang with the Company, there were no material contracts of the Company or its subsidiaries involving the interest of the Chief Executive Officer or any Director or controlling shareholders subsisting at the end of the financial year ended 31 December 2012.

Interested Person Transactions
(Listing Manual Rule 907)

The aggregate value of interested person transactions entered into during the financial year under review is as follows:

Name of interested person	Aggregate value of all interested person transactions during the financial year under review (excluding transactions less than $100,000 and transactions conducted under shareholders' mandate pursuant to Rule 920)	Aggregate value of all interested person transactions conducted under shareholders' mandate pursuant to Rule 920 (excluding transactions less than $100,000)
Molex International Inc & its group of companies		
- Purchases of Goods and Services	S$3,575,273	N.A.
- Sales of Goods and Services	S$107,581	N.A.

FINANCIAL CONTENTS

The directors are pleased to present their report to the members together with the audited consolidated financial statements of Hi-P International Limited (the "Company") and its subsidiaries (collectively, the "Group") and the balance sheet of the Company for the financial year ended 31 December 2012.

1. Directors

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

Yao Hsiao Tung
Wong Huey Fang
Yeo Tiong Eng
Chester Lin Chien
Leong Lai Peng
Gerald Lim Thien Su

2. Arrangements to enable directors to acquire shares and debentures

Except as described in paragraph 5 below, neither at the end of nor at any time during the financial year was the Company a party to any arrangement whose objects are, or one of whose objects is, to enable the directors of the Company to acquire benefits by means of the acquisition of shares or debentures of the Company or any other body corporate.

3. Directors' interests in shares and debentures

The following directors, who held office at the end of the financial year, had, according to the register of directors' shareholdings required to be kept under Section 164 of the Singapore Companies Act, Chapter 50, an interest in shares and share options of the Company and related corporations (other than wholly-owned subsidiaries) as stated below:

	Direct interest		Deemed interest	
	At the beginning of financial year	At the end of financial year	At the beginning of financial year	At the end of financial year
Name of director				
Ordinary shares of the Company				
Yao Hsiao Tung	488,385,480	492,520,480	–	–
Wong Huey Fang	1,351,000	1,351,000	–	–
Yeo Tiong Eng	500,000	500,000	–	–
Chester Lin Chien	2,000,000	2,000,000	–	–
Leong Lai Peng	200,000	200,000	–	–
Options to subscribe for ordinary shares				
Yao Hsiao Tung	6,403,000	7,522,650	–	–
Wong Huey Fang	977,000	1,113,421	–	–

3. Directors' interests in shares and debentures (cont'd)

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 Singapore Companies Act, Chapter 50, Mr Yao Hsiao Tung is deemed to have an interest in shares of the subsidiaries of the Company.

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 or end of the financial year.

4. Directors' contractual benefits

Except for salaries, bonuses and fees and those benefits that are disclosed in this report and 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.

5. Share options and share awards

Share options

The Hi-P Employee Share Option Scheme (the "Option Scheme") was approved and adopted at the Company's Extraordinary General Meeting held on 7 October 2003. The Option Scheme applies to executive directors, employees of the Group, controlling shareholders and their associates. The Option Scheme is administered by the Remuneration Committee, comprising Mdm Leong Lai Peng (Chairman), Mr Chester Lin Chien and Mr Gerald Lim Thien Su.

Other information regarding the Option Scheme is set out below:

(i) The exercise price of an option is determined at a price equal to the Market Price or a price which is set at a discount to the Market Price (subject to a maximum discount of 20%). Market Price in relation to an option is equal to the average of the last dealt prices for the Company's shares on the Singapore Exchange Securities Trading Limited (SGX-ST) for the five consecutive business days immediately preceding the date of grant of that option.

(ii) For options granted with an exercise price which is set at a discount to the Market Price ("Incentive Options"), 50% of the Incentive Options may be exercised after the 2nd anniversary from the date of grant of such Incentive Options and the remaining 50% may be exercised after the 3rd anniversary from the date of grant of such Incentive Options. For options granted with an exercise price fixed at the Market Price ("Market Price Options"), 50% of the Market Price Options may be exercised after the 1st anniversary of the date of grant of such Market Price Options and the remaining 50% may be exercised after the 2nd anniversary of the date of grant of such Market Price Options.

(iii) Options granted will expire 10 years after the grant date, unless they have been cancelled or have lapsed prior to that date.

5. Share options and share awards (cont'd)

Share options (cont'd)

Details of all options to subscribe for ordinary shares of the Company granted pursuant to the Option Scheme as at 31 December 2012 are as follows:

Date of grant of options	Exercise price per share	Options outstanding as at 1 January 2012	Options granted during the year	Options exercised during the year	Options cancelled/ lapsed	Options outstanding as at 31 December 2012	Exercise period
19/07/2004	$1.39	2,002,000	–	–	–	2,002,000	19/07/2005 to 18/07/2014
24/02/2005	$1.54	5,000	–	–	(5,000)	–	24/02/2006 to 23/02/2015
12/05/2005	$1.47	20,000	–	–	–	20,000	12/05/2006 to 11/05/2015
12/08/2005	$1.48	20,000	–	–	–	20,000	12/08/2006 to 11/08/2015
25/04/2006	$1.11	429,000	–	–	(18,000)	411,000	25/04/2007 to 24/04/2016
12/01/2010	$0.74	5,121,000	–	(1,452,500)	(769,000)	2,899,500	12/01/2011 to 11/01/2020
29/04/2010	$0.67	2,965,000	–	–	–	2,965,000	29/04/2011 to 28/04/2020
11/03/2011	$1.21	5,219,000	–	–	(1,018,000)	4,201,000	11/03/2012 to 10/03/2021
5/05/2011	$1.20	2,973,000	–	–	–	2,973,000	5/05/2012 to 4/05/2021
9/04/2012	$0.96	–	7,006,159	–	(1,556,297)	5,449,862	9/04/2013 to 8/04/2022
4/05/2012	$0.90	–	1,360,693	–	–	1,360,693	4/05/2013 to 3/05/2022

5. Share options and share awards (cont'd)

Share options (cont'd)

Details of options to subscribe for ordinary shares of the Company granted to directors, a controlling shareholder of the Company and his associate pursuant to the Option Scheme are as follows:

	Options granted during financial year ended 31 December 2012	Aggregate options granted since commencement of scheme to 31 December 2012	Aggregate options exercised since commencement of scheme to 31 December 2012	Aggregate options outstanding as at 31 December 2012
Name of Directors, Controlling Shareholder and his Associates				
Yao Hsiao Tung	1,119,650	7,522,650	–	7,522,650
Wong Huey Fang	136,421	1,464,421	(351,000)	1,113,421
Yao Hsiao Kuang	104,622	262,622	–	262,622

There were 36,342,852 options granted to the directors and employees of the Company and its subsidiaries since the commencement of the Option Scheme to the end of the financial year under review.

During the financial year:

(a) 7,006,159 options have been granted by the Company to its employees.

(b) 1,360,693 options have been granted by the Company to directors, a controlling shareholder and their associate.

(c) Other than a director and controlling shareholder of the Company, no employee received 5% or more of the total number of options (being 15% of the total number of issued shares from time to time) available to all directors and employees of the Company and its subsidiaries under the scheme.

(d) No options have been granted at a discount.

5. Share options and share awards (cont'd)

Share awards

The Hi-P Employee Share Award Scheme (the "Award Scheme") was approved and adopted at the Company's Extraordinary General Meeting held on 23 April 2009. The Award Scheme applies to executive directors, employees of the Group who have attained the age of 21 years and are of level 6 and above or such other employees as the Remuneration Committee may determine, controlling shareholders and their associates. At the Extraordinary General Meeting held on 23 April 2009, shareholders also approved the participation of Mr Yao Hsiao Tung and Mdm Wong Huey Fang in the Award Scheme. The Award Scheme is administered by the Remuneration Committee, comprising Mdm Leong Lai Peng (Chairman), Mr Chester Lin Chien and Mr Gerald Lim Thien Su.

Other information relating to the Award Scheme is set out below:

(i) Awards are granted at the discretion of the Remuneration Committee. The selection of a participant, the approved proportion of shares comprising the award which shall not exceed 50% of the annual bonus of the participant, and other conditions of the award shall be determined at the absolute discretion of the Remuneration Committee.

(ii) No minimum vesting periods are prescribed under the Award Scheme and the length of the vesting period(s) is determined on a case-by-case basis by the Remuneration Committee.

(iii) The Award Scheme shall continue to be in force at the discretion of the Remuneration Committee, subject to a maximum period of ten (10) years from the date of adoption of the Award Scheme.

Since the commencement of the Award Scheme to the end of the financial year under review, no share awards have been granted by the Company to its employees.

The total number of award shares which may be issued or issuable pursuant to awards granted under the Award Scheme when added to the aggregate number of shares that are issued or issuable pursuable to the exercise of Options granted under the Option Scheme, shall not exceed 15% of the total number of issued shares of the Company on the day preceding the date of grant of any award.

6. Audit committee

The Audit Committee performed the functions in accordance with Section 201B(5) of the Singapore Companies Act, Chapter 50. The functions performed are disclosed in the Report on Corporate Governance.

7. Auditor

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

On behalf of the board of directors:

Yao Hsiao Tung
Executive Chairman
Chief Executive Officer

Yeo Tiong Eng
Director

3 April 2013

STATEMENT BY DIRECTORS

We, Yao Hsiao Tung and Yeo Tiong Eng, being two of the directors of Hi-P International Limited, do hereby state that, in the opinion of the directors,

(a) the accompanying balance sheets, consolidated income statement, consolidated statement of comprehensive income, consolidated statement 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 the results of the business, changes in equity and cash flows of the Group 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:

Yao Hsiao Tung
Executive Chairman
Chief Executive Officer

Yeo Tiong Eng
Director

3 April 2013

INDEPENDENT AUDITOR'S REPORT

For the Financial Year Ended 31 December 2012

Independent Auditor's Report to the Members of Hi-P International Limited

REPORT ON THE FINANCIAL STATEMENTS

We have audited the accompanying financial statements of Hi-P International Limited (the "Company") and its subsidiaries (collectively, the "Group") set out on pages 28 to 107 which comprise the consolidated balance sheet of the Group and balance sheet of the Company as at 31 December 2012, and the consolidated statement of changes in equity, consolidated income statement, consolidated statement of comprehensive income and consolidated cash flow statement of the Group for the year then ended, and a summary of significant accounting policies and other explanatory information.

Management's Responsibility for the Financial Statements

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

Auditor's Responsibility

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

An audit involves performing procedures to obtain audit evidence about the amounts and disclosures in the financial statements. The procedures selected depend on the auditor's judgment, including the assessment of the risks of material misstatement of the financial statements, whether due to fraud or error. In making those risk assessments, the auditor considers internal control relevant to the entity's preparation of the financial statements that give a true and fair view in order to design audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the entity's internal control. An audit also includes evaluating the appropriateness of accounting policies used and the reasonableness of accounting estimates made by management, as well as evaluating the overall presentation of the financial statements.

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

Opinion

In our opinion, the consolidated financial statements of the Group and the balance sheet 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 of the results, changes in equity and cash flows of the Group 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 subsidiaries incorporated in Singapore of which we are the auditors have been properly kept in accordance with the provisions of the Act.

Ernst & Young LLP
Public Accountants and
Certified Public Accountants
Singapore

3 April 2013

CONSOLIDATED INCOME STATEMENT

For the Financial Year Ended 31 December 2012

	Note	2012 $'000	2011 $'000
Revenue	4	1,166,741	1,203,909
Cost of sales		(1,068,890)	(1,073,145)
Gross profit		97,851	130,764
Other items of income			
Interest income	5	6,789	4,889
Other income	6	13,306	13,945
Other items of expense			
Selling and distribution expenses		(7,303)	(7,286)
Administrative expenses		(78,528)	(71,891)
Financial costs	7	(3,953)	(1,465)
Other expenses	8	(5,935)	(9,599)
Share of results of associates		325	31
Profit before tax	9	22,552	59,388
Income tax expense	11	(4,599)	(14,428)
Profit for the year		17,953	44,960
Attributable to :			
Owners of the Company		17,948	44,989
Non-controlling interests		5	(29)
		17,953	44,960
Earnings per share attributable to owners of the Company (cents per share)			
Basic	13	2.12	5.28
Diluted	13	2.12	5.28

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

CONSOLIDATED STATEMENT OF COMPREHENSIVE INCOME

For the Financial Year Ended 31 December 2012

	2012 $'000	2011 $'000
Profit for the year	17,953	44,960
Other comprehensive income:		
Foreign currency translation	(16,729)	18,002
Share of other comprehensive income of associates	(98)	92
Other comprehensive income for the year, net of tax	(16,827)	18,094
Total comprehensive income for the year	1,126	63,054
Attributable to:		
Owners of the Company	1,165	63,034
Non-controlling interests	(39)	20
Total comprehensive income for the year	1,126	63,054

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 $'000	Group 2011 $'000	Company 2012 $'000	Company 2011 $'000
Non-current assets					
Property, plant and equipment	14	363,912	284,392	17,084	18,069
Land use rights	15	1,365	–	–	–
Investment in subsidiaries	16	–	–	252,978	207,821
Investment in associates	17	1,886	2,328	984	1,478
Other investment	18	12	12	12	12
Other receivables	20	–	–	89,047	60,649
Other long term asset	22	223	87	–	–
Deferred tax assets	27	12,740	13,974	–	–
		380,138	300,793	360,105	288,029
Current assets					
Inventories	19	145,509	124,832	3,784	3,889
Trade and other receivables	20	328,469	293,318	48,617	140,283
Prepaid operating expenses		16,050	16,453	597	510
Derivatives	21	1,401	984	1,190	692
Short term deposits pledged	23	11,491	75,651	–	–
Cash and cash equivalents	23	166,017	264,062	18,249	48,297
		668,937	775,300	72,437	193,671
Assets of disposal group classified as held for sale	12	2,113	–	–	–
		671,050	775,300	72,437	193,671
Current liabilities					
Trade and other payables	24	277,900	311,355	11,329	15,870
Accrued operating expenses		32,189	33,467	6,048	10,586
Provisions	25	3,918	–	–	–
Loans and borrowings	26	142,228	116,692	80,223	116,176
Income tax payable		10,597	10,742	150	357
Derivatives	21	678	2,835	678	2,237
		467,510	475,091	98,428	145,226
Liabilities directly associated with disposal group classified as held for sale	12	453	–	–	–
		467,963	475,091	98,428	145,226
Net current assets/ (liabilities)		203,087	300,209	(25,991)	48,445
Non-current liabilities					
Loans and borrowings	26	2,073	2,725	–	–
Deferred tax liabilities	27	1,402	1,582	–	–
		3,475	4,307	–	–
Net assets		579,750	596,695	334,114	336,474

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

As at 31 December 2012

	Note	Group		Company	
		2012	2011	2012	2011
		$'000	$'000	$'000	$'000
Equity attributable to owners of the Company					
Share capital	28(a)	119,725	119,725	119,725	119,725
Treasury shares	28(b)	(44,285)	(44,235)	(44,285)	(44,235)
Accumulated profits	29	474,409	477,068	250,947	255,091
Other reserves	29	25,088	43,175	7,727	5,893
Reserve of disposal group classified as held for sale	12	3,890	–	–	–
		578,827	595,733	334,114	336,474
Non-controlling interests		923	962	–	–
Total equity		579,750	596,695	334,114	336,474

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

CONSOLIDATED STATEMENT OF CHANGES IN EQUITY

For the Financial Year Ended 31 December 2012

Group	Share capital (Note 28(a)) $'000	Treasury shares (Note 28(b)) $'000	Other reserves (Note 29) $'000	Accumulated profits $'000	Total equity attributable to owners of the Company $'000	Non-controlling interests $'000	Total equity $'000
	Attributable to owners of the Company						
Opening balance at 1 January 2011	119,725	(34,040)	21,263	463,701	570,649	942	571,591
Profit for the year	–	–	–	44,989	44,989	(29)	44,960
Other comprehensive income							
Foreign currency translation	–	–	17,955	(2)	17,953	49	18,002
Share of other comprehensive income of associates	–	–	92	–	92	–	92
Other comprehensive income for the year, net of tax	–	–	18,047	(2)	18,045	49	18,094
Total comprehensive income for the year	–	–	18,047	44,987	63,034	20	63,054
Contributions by and distributions to owners							
Employee share option scheme – Equity compensation benefits (Note 29(d))	–	–	2,042	–	2,042	–	2,042
Purchase of treasury shares (Note 28(b))	–	(11,470)	–	–	(11,470)	–	(11,470)
Treasury shares reissued pursuant to employee share option plans (Note 28(b))	–	1,275	14	–	1,289	–	1,289
Dividends on ordinary shares (Note 31)	–	–	–	(29,811)	(29,811)	–	(29,811)
Total transactions with owners in their capacity as owners	–	(10,195)	2,056	(29,811)	(37,950)	–	(37,950)
Others							
Transfer from retained earnings to statutory reserve fund (Note 29(a))	–	–	1,809	(1,809)	–	–	–
Total others	–	–	1,809	(1,809)	–	–	–
Closing balance at 31 December 2011	119,725	(44,235)	43,175	477,068	595,733	962	596,695

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

For the Financial Year Ended 31 December 2012

	Attributable to owners of the Company							
Group	Share capital (Note 28(a)) $'000	Treasury shares (Note 28(b)) $'000	Other reserves (Note 29) $'000	Reserve of disposal group classified as held for sale (Note 12) $'000	Accumulated profits $'000	Total equity attributable to owners of the Company $'000	Non-controlling interests $'000	Total equity $'000
Opening balance at 1 January 2012	119,725	(44,235)	43,175	–	477,068	595,733	962	596,695
Profit for the year	–	–	–	–	17,948	17,948	5	17,953
Other comprehensive income								
Foreign currency translation	–	–	(16,685)	–	–	(16,685)	(44)	(16,729)
Share of other comprehensive income of associates	–	–	(98)	–	–	(98)	–	(98)
Other comprehensive income for the year, net of tax	–	–	(16,783)	–	–	(16,783)	(44)	(16,827)
Total comprehensive income for the year	–	–	(16,783)	–	17,948	1,165	(39)	1,126
Contributions by and distributions to owners								
Employee share option scheme – Equity compensation benefits (Note 29(d))	–	–	1,804	–	–	1,804	–	1,804
Purchase of treasury shares (Note 28(b))	–	(1,095)	–	–	–	(1,095)	–	(1,095)
Treasury shares reissued pursuant to employee share option plans (Note 28(b))	–	1,045	30	–	–	1,075	–	1,075
Dividends on ordinary shares (Note 31)	–	–	–	–	(19,824)	(19,824)	–	(19,824)
Total transactions with owners in their capacity as owners	–	(50)	1,834	–	(19,824)	(18,040)	–	(18,040)
Others								
Transfer from retained earnings to statutory reserve fund (Note 29(a))	–	–	783	–	(783)	–	–	–
Disposal of associates	–	–	(31)	–	–	(31)	–	(31)
Reserve attributable to disposal group classified as held for sale (Note 12)	–	–	(3,890)	3,890	–	–	–	–
Total others	–	–	(3,138)	3,890	(783)	(31)	–	(31)
Closing balance at 31 December 2012	119,725	(44,285)	25,088	3,890	474,409	578,827	923	579,750

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

CONSOLIDATED CASH FLOW STATEMENT

For the Financial Year Ended 31 December 2012

	Note	2012 $'000	2011 $'000
Cash flows from operating activities			
Profit before tax		22,552	59,388
Adjustments for:			
Depreciation of property, plant and equipment	14	69,749	59,487
Impairment loss on property, plant and equipment	14	428	7,909
Net loss on disposal of property, plant and equipment	8	549	119
Property, plant and equipment written off	8	1,295	200
Allowance for inventory obsolescence	19	5,299	2,943
Inventories written back	19	(1,137)	(2,158)
Impairment loss/ (write-back) on doubtful receivables	9	164	(636)
Bad debts (recovered)/ written off	9	(42)	179
Equity compensation expense	9	1,804	2,042
Interest expense	7	3,953	1,465
Interest income	5	(6,789)	(4,889)
Net fair value (gain)/ loss on derivatives- unrealised		(2,601)	3,071
Net loss/ (gain) on disposal of investment in subsidiaries	8	1,516	(379)
Gain on disposal of investment in an associate	8	(9)	–
Net unrealised exchange difference		3,643	(3,800)
Share of results of associates		(325)	(31)
Operating cash flows before changes in working capital		100,049	124,910
Changes in working capital			
Increase in inventories		(30,404)	(20,461)
Increase in trade and other receivables		(48,075)	(14,705)
Increase in prepaid operating expenses and other long term asset		(468)	(14,646)
(Decrease)/ increase in trade and other payables		(35,468)	51,838
Increase/ (decrease) in accrued operating expenses		3,636	(2,498)
Increase in amounts due from related parties		(132)	(77)
Total changes in working capital		(110,911)	(549)
Cash flows (used in)/ generated from operations		(10,862)	124,361
Income taxes paid		(2,389)	(22,826)
Net cash flows (used in)/ generated from operating activities		(13,251)	101,535
Cash flows from investing activities			
Dividends received from an associated company		–	150
Interest received		6,657	4,137
Proceeds from disposal of property, plant and equipment		2,504	1,180
Purchase of property, plant and equipment	a	(151,002)	(65,538)
Acquisition of land use rights		(1,365)	–
Proceeds from maturity of short term investments		–	3,906
Proceeds from disposal of an associate		500	–
Net cash flows used in investing activities		(142,706)	(56,165)

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

	Note	2012 $'000	2011 $'000
Cash flows from financing activities			
Decrease/ (increase) in short term fixed deposits pledged		64,160	(75,651)
Dividends paid on ordinary shares	31	(19,824)	(29,811)
Purchase of treasury shares	28(b)	(1,095)	(11,470)
Proceeds from re-issuance of treasury shares	28(b)	1,075	1,289
Interest paid	7	(3,953)	(1,465)
Proceeds from loans and borrowings		31,225	116,108
Repayments of obligations under finance lease		(567)	(577)
Net cash flows generated from/ (used in) financing activities		71,021	(1,577)
Net (decrease)/ increase in cash and cash equivalents		(84,936)	43,793
Effect of exchange rate changes on cash and cash equivalents		(12,055)	5,291
Cash and cash equivalents at beginning of year		264,062	214,978
Cash and cash equivalents at end of year		167,071	264,062

Note to the Consolidated Cash Flow Statement

(a) Purchase of property, plant and equipment

	Note	2012 $'000	2011 $'000
Current year additions	14	166,510	86,736
Less: Payable to creditors		(35,936)	(26,685)
		130,574	60,051
Payments for prior year purchases		20,428	5,487
Net cash outflow for purchase		151,002	65,538

(b) Reconciliation of cash and cash equivalents at 31 December 2012

	$'000
Cash and cash equivalents at end of period per Note 23	166,017
Cash and cash equivalents of disposal group classified as held for sale (Note 12)	1,054
	167,071

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

1. Corporate information

Hi-P International Limited (the "Company") is a limited liability company, which is incorporated in Singapore and publicly traded on the Singapore Exchange Securities Trading Limited (SGX-ST).

The registered office and principal place of business of the Company is located at 11 International Business Park, Jurong East, Singapore 609926.

The principal activities of the Company are design and fabrication of mold ("MDF"), precision plastic injection molding ("PPIM"), assembly, provision of ancillary value-added services (mainly surface finishing services) and precision metal stamping. The principal activities of the subsidiaries are disclosed in Note 16 to the financial statements.

2. Summary of significant accounting policies

2.1 Basis of preparation

The consolidated financial statements of the Group and balance sheet 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 ("$" or "SGD") and all values in the table are rounded to the nearest thousand ("$'000") as indicated.

2.2 Changes in accounting policies

The accounting policies adopted are consistent with those of the previous financial year except that in the current financial year, the Group has adopted all the new and revised standards and Interpretations of FRS ("INT FRS") that are effective for annual periods beginning on or after 1 January 2012. The adoption of these standards and interpretations did not have any effect on the financial performance or position of the Group and the Company.

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

2.3 Standards issued but not yet effective

The Group has not adopted the following standards and interpretations that have been issued but are 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 Measurement*	1 January 2013
Amendments to FRS 107 *Disclosures – 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 and FRS 112, the directors expect that the adoption of the other standards and interpretations above will have no material impact on the financial statements in the period of initial application. The nature of the impending changes in accounting policy on adoption of the Amendments to FRS 1 and FRS 112 are described below.

<u>Amendments to FRS 1 Presentation of Items of Other Comprehensive Income</u>

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.

<u>FRS 112 Disclosure of Interests in Other Entities</u>

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

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

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

FRS 112 Disclosure of Interests in Other Entities (cont'd)

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 combinations

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.

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:

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

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

a) Basis of consolidation (cont'd)

Basis of consolidation prior to 1 January 2010 (cont'd)

- 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 has 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.

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. 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.

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

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

b) Business combinations (cont'd)

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 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) Transactions and balances

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

Exchange differences arising on the settlement of monetary items or on translating monetary items at the end of the reporting period are recognised in profit or loss except for exchange differences arising on monetary items that form part of the Group's net investment in foreign operations, which are recognised initially in other comprehensive income and accumulated under 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 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 Subsidiaries

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

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

2.7 Transactions with non-controlling interests

Non-controlling interest represents the equity in subsidiaries not attributable, directly or indirectly, to owners of the Company, and are presented separately in the consolidated statement of comprehensive income and within equity in the consolidated balance sheet, separately from equity attributable to owners of the Company.

Changes in the Company's ownership interest in a subsidiary that do not result in a loss of control are accounted for as equity transactions. In such circumstances, the carrying amounts of the controlling and non-controlling interests are adjusted to reflect the changes in their relative interests in the subsidiary. Any difference between the amount by which the non-controlling interest is adjusted and the fair value of the consideration paid or received is recognised directly in equity and attributed to owners of the Company.

2.8 Associates

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.

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

2.8 Associates (cont'd)

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.

2.9 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);

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

2.9 Related parties (cont'd)

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

(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).

2.10 Property, plant and equipment

All items of property, plant and equipment are initially recorded at cost. Subsequent to recognition, property, plant and equipment are measured at cost less accumulated depreciation and any accumulated impairment losses. The cost includes the cost of replacing part of the property, plant and equipment and borrowing costs that are directly attributable to the acquisition, construction or production of a qualifying property, plant and equipment. The accounting policy for borrowing costs is set out in Note 2.20. The cost of an item of property, plant and equipment is recognised as an asset if, and only if, it is probable that future economic benefits associated with the item will flow to the Group and the cost of the item can be measured reliably.

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

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

Factory buildings and leasehold improvements	10 - 57 years
Renovation	3 - 10 years
Plant and machinery	1 - 10 years
Motor vehicles	5 - 6 years
Office equipment, furniture and fittings	3 - 10 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.

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

2.10 Property, plant and equipment (cont'd)

An item of property, plant and equipment is de-recognised 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 de-recognised.

2.11 Intangible asset

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

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

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

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

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

Club membership

Club membership was acquired separately and is amortised on a straight line basis over its finite useful life of 10 years.

2.12 Land use rights

Land use rights are initially measured at cost. Following initial recognition, land use rights are measured at cost less accumulated amortisation. The land use rights are amortised on a straight-line basis over the lease term.

2.13 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 such indication exists, or when an annual impairment testing for an asset is required, the Group makes an estimate of the asset's recoverable amount.

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

2.13 Impairment of non-financial assets (cont'd)

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 group 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. These calculations are corroborated by valuation multiples or other available fair value indicators.

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

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.

2.14 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.

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

2.14 Financial assets (cont'd)

Subsequent measurement (cont'd)

a) *Financial assets at fair value through profit or loss (cont'd)*

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) *Loan 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 de-recognised 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 de-recognised 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.

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 asset 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.

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

2.14 Financial assets (cont'd)

De-recognition

A financial asset is de-recognised 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 de-recognised 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.

2.15 Impairment of financial assets

The Group assesses at each reporting date whether there is any objective evidence that a financial asset is impaired.

a) Financial assets carried at amortised cost

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

If there is objective evidence that an impairment loss on financial assets carried at amortised cost has been incurred, the amount of the loss is measured as the difference between the asset's carrying amount and the present value of estimated future cash flows discounted at the financial asset's original effective interest rate. If a loan has a variable interest rate, the discount rate for measuring any impairment loss is the current effective interest rate. The carrying amount of the asset is reduced through the use of an allowance account. The impairment loss is recognised in profit or loss.

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

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

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

2.15 Impairment of financial assets (cont'd)

a) *Financial assets carried at amortised cost (cont'd)*

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

b) *Financial assets carried at cost*

If there is objective evidence (such as significant adverse changes in the business environment where the issuer operates, probability of insolvency or significant financial difficulties of the issuer) that an impairment loss on financial assets carried at cost has been incurred, the amount of the loss is measured as the difference between the asset's carrying amount and the present value of estimated future cash flows discounted at the current market rate of return for a similar financial asset. Such impairment losses are not reversed in subsequent periods.

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. Summary of significant accounting policies (cont'd)

2.16 Inventories

Inventories are stated at the lower of cost and net realisable value. Costs incurred in bringing each product to its present location and conditions are accounted as follows:

- Raw materials - purchase cost on a weighted average basis;

- Work-in-progress and finished goods - cost of direct materials and labour and a proportion of manufacturing overheads based on normal operating capacity. These costs are assigned on a first-in first-out basis.

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

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

2.17 Cash and cash equivalents

Cash and cash equivalents comprise cash at bank and on hand and short-term fixed deposits. These also include bank overdrafts that form an integral part of the Group's cash management.

2.18 Financial liabilities

Initial recognition and measurement

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

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

Subsequent measurement

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

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 as at fair value through profit or loss. Financial liabilities are classified as held for trading if they are acquired for the purpose of selling in the near term. 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.

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

2.18 Financial liabilities (cont'd)

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 de-recognised, 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.

2.19 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 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.

2.20 Borrowing costs

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

2.21 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.

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

2.21 Provisions (cont'd)

Warranty provisions

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

2.22 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 ("CPF") scheme in Singapore, a defined contribution pension scheme. The subsidiaries incorporated and operating in the People's Republic of China ("PRC") are required to provide certain staff pension benefits to their employees under existing PRC regulations.

Pension contributions are provided at rates stipulated by PRC regulations and are contributed to a pension fund managed by government agencies, which are responsible for administering these amounts for the subsidiaries' employees. The subsidiary in Mexico maintains and administers a savings plan for its employees whereby the subsidiary and its permanent employees jointly contribute monthly to the savings plan. The funds collected under this savings plan are allocated to the relevant employees every year. In the event of a termination of employment, the relevant employee may withdraw his entitlement to the funds.

Contributions to national pension schemes are recognised as an expense in the period in which the related services are performed.

b) *Employee leave entitlement*

Employee entitlements to annual leave are recognised as a liability when they accrue to the employees. The estimated liability for annual leave is recognised for services rendered by employees up to the end of the reporting period.

c) *Employee share option plans*

Employees of the Group receive remuneration in the form of share options as consideration for services rendered. The cost of these equity-settled share based payment transactions with employees is measured by reference to the fair value of the options at the date on which the options are granted which takes into account market conditions and non-vesting conditions. This cost is recognised in profit or loss, with a corresponding increase in the employee share option reserve, over the vesting period. The cumulative expense recognised at each reporting date until the vesting date reflects the extent to which the vesting period has expired and the Group's best estimate of the number of options that will ultimately vest. The charge or credit to profit or loss for a period represents the movement in cumulative expense recognised as at the beginning and end of that period and is recognised in equity compensation expense.

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

2.22 Employee benefits (cont'd)

c) *Employee share option plans (cont'd)*

No expense is recognised for options that do not ultimately vest, except for options where vesting is conditional upon a market or non-vesting condition, which are treated as vested irrespective of whether or not the market condition or non-vesting condition is satisfied, provided that all other performance and/ or service conditions are satisfied. In the case where the option does not vest as the result of a failure to meet a non-vesting condition that is within the control of the Group or the employee, it is accounted for as a cancellation. In such case, the amount of the compensation cost that otherwise would be recognised over the remainder of the vesting period is recognised immediately in profit or loss upon cancellation. The employee share option reserve is transferred to retained earnings upon expiry of the share options. When the options are exercised, the employee share option reserve is transferred to share capital if new shares are issued, or to treasury shares if the options are satisfied by the reissuance of treasury shares.

2.23 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 or the arrangement conveys a right to use the asset, even if that right is not explicitly specified in an arrangement.

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

a) *Finance lease*

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.

b) *Operating lease*

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. Summary of significant accounting policies (cont'd)

2.24 Assets of disposal group classified as held for sale

Assets of disposal group classified as held for sale are measured at the lower of their carrying amount and fair value less costs to sell. Assets of disposal group are classified as held for sale if their carrying amount will be recovered principally through a sale transaction rather than through continuing use. This condition is regarded as met only when the sale is highly probable and the asset of disposal group is available for immediate sale in its present condition. Management must be committed to the sale, which should be expected to qualify for recognition as a completed sale within one year from the date of classification.

Property, plant and equipment and intangible assets once classified as held for sale are not depreciated or amortised.

2.25 Revenue

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

a) *Sale of goods*

Revenue from sale of goods is recognised upon the transfer of significant risk and rewards of ownership of the goods to the customer, usually on delivery of goods. Revenue is not recognised to the extent where there are significant uncertainties regarding recovery of the consideration due, associated costs or the possible return of goods.

b) *Service income*

Service income from trial runs conducted for customers is recognised when the right to receive payment is established.

c) *Interest income*

Interest income is recognised using the effective interest method.

d) *Dividend income*

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

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

2.26 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 accounting profit nor taxable profit or loss; and
- in respect of taxable temporary differences associated with investments in subsidiaries and associates, 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 and associates, 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.

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

2.26 Taxes (cont'd)

b) Deferred tax (cont'd)

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 the reporting period.

Deferred tax relating to items recognised outside profit or loss is recognised outside profit or loss. Deferred tax items are recognised in correlation to the underlying transaction either in other comprehensive income or directly in equity and deferred tax arising from a business combination is adjusted against goodwill on acquisition.

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

c) Sales tax

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

- where the sales tax incurred in a purchase of assets or services is not recoverable from the taxation authority, in which case the sales tax is recognised as part of the cost of acquisition of the asset or as part of the expense item as applicable; and
- receivables and payables that are stated with the amount of sales tax included.

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

2.27 Segment reporting

For management purposes, the Group is organised into operating segments based on their products and services which are independently managed by the respective segment managers responsible for the performance of the respective segments under their charge. The segment managers report directly to the management of the Company who regularly review the segment results in order to allocate resources to the segments and to assess the segment performance. Additional disclosures on each of these segments are shown in Note 38, including the factors used to identify the reportable segments and the measurement basis of segment information.

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

2.28 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.

2.29 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.

2.30 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.

2.31 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.

Government grant is recognised in profit or loss on a systematic basis over the periods in which the entity recognises as expenses the related costs for which the grants are intended to compensate. Grants related to income may be presented as a credit in profit or loss, under the header "Other income".

3. Significant accounting judgements and estimates

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

3.1 Judgement made in applying accounting policies

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

a) *Income taxes*

The Group has exposure to income taxes in numerous 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 tax outcome of these matters is different from the amounts that were initially recognised, such differences will impact the income tax and deferred tax provisions in the period in which such determination is made. The carrying amount of the Group's tax payables and net deferred tax assets as at 31 December 2012 were $10,597,000 (2011: $10,742,000) and $11,338,000 (2011: $12,392,000) respectively.

b) *Deferred tax assets*

Deferred tax assets are recognised for all temporary differences to the extent that it is probable that taxable profit will be available against which the temporary differences can be utilised. Significant management judgement is required to determine the amount of deferred tax assets that can be recognised, based upon the likely timing and level of future taxable profits together with future tax planning strategies. The carrying value of recognised temporary differences at 31 December 2012 was $64,663,000 (2011: $49,251,000) and the unrecognised tax losses as at 31 December 2012 was $121,868,000 (2011: $127,589,000).

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, judgment 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.

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

3.2 Key sources of estimation uncertainty

The key assumptions concerning the future and other key sources of estimation uncertainty at the end of each reporting period, that have a significant risk of causing a material adjustment to the carrying amounts of assets and liabilities within the next financial year are discussed below:

a) *Useful lives of plant and machinery*

The cost of plant and machinery for the manufacture of electronic components is depreciated on a straight-line basis over the plant and machinery's estimated economic useful lives. Management estimates the useful lives of these plant and machinery to be within 1 to 10 years. These are common life expectancies applied in the industry. 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. The carrying amount of the Group's plant and machinery at the end of each reporting period is disclosed in Note 14 to the financial statements.

b) *Impairment of loans and receivables*

The Group assesses at 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 receivables at the end of each reporting period is disclosed in Note 20 to the financial statements. If the present value of estimated future cash flows decreases by 10% from management's estimates, the Group's allowance for impairment will increase by $87,000 (2011: $94,000).

c) *Impairment of property, plant and equipment*

The Group determines whether property, plant and equipment are impaired at least on an annual basis. This requires an estimation of the value in use of the cash-generating units which required the Group to make an estimate of the expected cash flows from the cash-generating unit and also to choose a suitable discount rate in order to calculate the present value of those cash flows. The carrying amount of the property, plant and equipment as at 31 December 2012 was $363,912,000 (2011: $284,392,000). More details are given in Notes 2.10 and 14.

d) *Provision for warranty*

The Group recognises provision for warranty at the point of recording related revenue. The Group accrues provision for warranty based on the best estimate of amounts necessary to settle future warranty claims on products sold as of each balance sheet date. Continuous release of products that are more technologically complex could result in additional allowances being required in future periods.

4. Revenue

Revenue represents sales to customers net of discounts and returns. Intra-group transactions have been excluded from Group revenue.

5. Interest income

	Group	
	2012	2011
	$'000	$'000
Interest income from loans and receivables:		
- bank balances and short-term fixed deposits	6,789	4,889

6. Other income

	Group	
	2012	2011
	$'000	$'000
Sale of scrap materials	4,315	3,786
Sale of molding samples	547	239
Compensation from customers	2,103	4,373
Incentives from government[1]	2,673	1,956
Service income from trial runs conducted for customers	1,458	1,512
Trade/ other payables written off	1,801	1,538
Others	409	541
	13,306	13,945

[1] Incentives from government include mainly subsidies received from government in China to ease the business costs, childcare leave grants, special employment credit for older employees from Singapore government and training grant from Inland Revenue Authority of Singapore ("IRAS").

7. Financial costs

	Group	
	2012	2011
	$'000	$'000
Commission/ interest expense on		
- Bankers' guarantees, term loans and other bank facilities	3,686	1,134
- Obligations under finance leases	267	331
	3,953	1,465

8. Other expenses

	Group 2012 $'000	Group 2011 $'000
Net loss on disposal of property, plant and equipment	549	119
Property, plant and equipment written off	1,295	200
Impairment loss on property, plant and equipment	428	7,909
Net fair value gain on derivatives	(4,537)	(3,534)
Net foreign exchange loss	6,292	3,475
Net loss on sale of raw materials	311	940
Net loss/ (gain) on disposal of investment in subsidiaries	1,516	(379)
Gain on disposal of investment in an associate	(9)	–
Others	90	869
	5,935	9,599

9. Profit before tax

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

	Group 2012 $'000	Group 2011 $'000
Audit fees paid to:		
- Auditors of the Company	697	679
- Other auditors	113	124
Non-audit fees paid to:		
- Auditors of the Company	557	70
- Other auditors	80	59
Total audit and non-audit fees	1,447	932
Depreciation of property, plant and equipment	69,749	59,487
Directors' fees	358	418
Directors' remuneration (Note 10)		
- Directors of the Company [1]	1,192	2,819
Bad debts (recovered)/ written off	(42)	179
Impairment loss/ (write back) on doubtful receivables		
- Trade receivables	149	(645)
- Other receivables	15	9
Inventories recognised as an expense in cost of sales (Note 19)	699,244	751,675
Equity compensation expense (Note 10)	1,804	2,042
Operating lease expenses (Note 32(b))	18,787	17,217
Other personnel expenses (Note 10)	258,472	232,288

[1] Amount includes performance bonus amounting to approximately $111,000 (2011: $1,740,000) pursuant to the Service Agreement entered into with directors.

10. Personnel expenses

	Group 2012 $'000	Group 2011 $'000
Wages, salaries and bonus	202,876	187,635
Defined contribution plans	26,273	19,833
Other short-term benefits	30,515	27,639
Equity compensation expense (Employee share option plans (Notes 9 and 29(d)))	1,804	2,042
	261,468	237,149

The personnel expenses are inclusive of executive directors' remuneration.

Equity compensation benefits are disclosed in Note 30.

11. Income tax expense

a) Major components of income tax expense

The major components of income tax expense for the years ended 31 December 2012 and 2011 are:

	Group 2012 $'000	Group 2011 $'000
Current income tax		
- Current income taxation	9,613	17,027
- Provision for Flat Rate Business Tax ("IETU")	470	67
- Over provision in respect of previous years	(5,865)	(725)
	4,218	16,369
Deferred tax		
- Origination and reversal of temporary differences	(2,249)	1,251
- Provision for IETU (Note 27)	139	(123)
- Effect of changes in tax rates	1,629	(618)
- Under/ (over) provision in respect of previous years	862	(2,451)
	381	(1,941)
Income tax expense recognised in profit or loss	4,599	14,428

11. Income tax expense (cont'd)

b) Relationship between tax expense and accounting profit

The reconciliation between the tax expense and the product of accounting profit multiplied by the applicable corporate tax rate for the years ended 31 December 2012 and 2011 are as follows:

	Group	
	2012 $'000	2011 $'000
Accounting profit before tax	22,552	59,388
Income tax expense at statutory rate of 17%	3,834	10,096
Tax effect of different tax rates of overseas operations	3,109	3,324
Tax effect of exempt income and rebate	(524)	(764)
Tax effect of non deductible expenses	3,226	3,527
Tax effect of income not subject to taxation	(3,658)	(1,976)
Deferred tax assets not recognized	1,022	1,199
Over provision of current income tax in respect of previous years	(5,865)	(725)
Under/ (over) provision of deferred tax liabilities in respect of previous years	862	(2,451)
Provision/ (excess provision) for IETU	609	(56)
Withholding tax	552	3,023
Effect of changes in tax rates	1,629	(618)
Share of results of associates	25	–
Others	(222)	(151)
Income tax expense recognised in profit or loss	4,599	14,428

11. Income tax expense (cont'd)

b) Relationship between tax expense and accounting profit (cont'd)

In accordance with the "Income Tax Law of the PRC for Enterprises with Foreign Investment and Foreign Enterprises", the subsidiaries in the PRC are entitled to full exemption from Enterprise Income Tax ("EIT") for the first two years and a 50% reduction in EIT for the next three years, commencing from the first profitable year after offsetting all tax losses carried forward from the previous five years. Accordingly, the results of these subsidiaries are taxed at the following tax rates:

	2012 %	2011 %
Hi-P Shanghai Electronics Co., Ltd.	25.0	24.0
Hi-P (Shanghai) Automation Engineering Co., Ltd.	25.0	24.0
Hi-P Precision Plastic Manufacturing (Shanghai) Co., Ltd.	25.0	24.0
Hi-P (Suzhou) Precision Mold & Die Co., Ltd.	25.0	25.0
Hi-P (Xiamen) Precision Plastic Manufacturing Co., Ltd.	25.0	24.0
Hi-P (Chengdu) Precision Plastic Manufacturing Co., Ltd.[1]	15.0	15.0
Hi-P (Chengdu) Mold Base Manufacturing Co., Ltd.	25.0	25.0
Qingdao Haier Hi-P Science Technology Co., Ltd.	25.0	25.0
Hi-P Tianjin Electronics Co., Ltd.	25.0	24.0
Hi-P (Shanghai) Precision Metal Co., Ltd. (f.k.a. Hi-P (Shanghai) Industries Co., Ltd.)	25.0	24.0
Hi-P (Shanghai) Housing Appliance Co., Ltd.[2]	15.0	24.0
Hi-P (Shanghai) Precision Mold & Die Co., Ltd.	25.0	24.0
Hi-P (Tianjin) Precision Mold & Die Co., Ltd.	25.0	24.0
Hi-P (Suzhou) Electronics Co., Ltd.	12.5	12.5
Hi-P (Tianjin) Technology Co., Ltd.	25.0	12.0
Hi-P (Shanghai) Technology Co., Ltd.[2]	15.0	24.0
Hi-P Lens Technology (Shanghai) Co., Ltd.	25.0	12.0
Hi-P (Shanghai) Stamping Mold & Component Industries Co., Ltd.[2]	15.0	24.0
Hi-P (Suzhou) Electronics Technology Co., Ltd.	12.5	12.5
Hi-P (Nantong) Technology Co., Ltd.	25.0	–

1 Hi-P (Chengdu) Precision Plastic Manufacturing Co., Ltd. has obtained concessionary tax rate of 15% from China Tax Authority. The concessionary tax rate application is submitted on yearly basis.

2 These subsidiaries have obtained concessionary tax rate of 15% from China Tax Authority in 2012. The concessionary tax rates are applicable for the period starting from 2011 to 2013.

11. Income tax expense (cont'd)

b) Relationship between tax expense and accounting profit (cont'd)

High Precision Moulding and Tools, S.A. de C.V. is subject to the following types of income taxes:

(i) Flat Rate Business Tax ("IETU") has been introduced in 2011 as a minimum tax. The rate of IETU is 17.5% for 2012 (2011: 17.5%). The new tax is levied on broader taxable income and on a cash basis rather than on an accrual basis. The tax applies only to Mexican residents and to non-residents that have a permanent establishment in Mexico. IETU is levied on the difference between cash collections from the sales of goods, rendering of services and rental of property and cash payments for the acquisition of goods, services and rentals. Income tax paid can be credited against the IETU. IETU paid in excess of income tax for any tax year cannot be carried over.

(ii) Income tax: the applicable corporate income tax rate is 30.0% (2011: 30.0%).

Hi-P Poland SP. ZO.O. is subject to corporate income tax rate of 19.0% (2011: 19.0%).

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.

12. Disposal group classified as held for sale

On 16 July 2012, the Company announced the decision of its board of directors to cease business operation of one of its wholly-owned subsidiaries, High Precision Moulding and Tools, S.A.de C.V. ("Hi-P Mexico"), with effect from 30 September 2012. Hi-P Mexico will remain a dormant company thereafter.

As at 31 December 2012, the assets and liabilities related to Hi-P Mexico have been presented in the balance sheet as "Assets of disposal group classified as held for sale" and "Liabilities directly associated with disposal group classified as held for sale".

12. Disposal group classified as held for sale (cont'd)

Balance sheet disclosure

The major classes of assets and liabilities of Hi-P Mexico classified as held for sale and the related foreign currency translation reserve as at 31 December are as follows:

	Group	
	2012	2011
	$'000	$'000
Assets		
Trade and other receivables	1,054	–
Prepaid operating expenses	5	–
Cash and cash equivalents	1,054	–
Assets of disposal group classified as held for sale	2,113	–
Liabilities		
Trade and other payables	10	–
Accrued operating expenses	226	–
Income tax payable	13	–
Deferred tax liabilities	204	–
Liabilities directly associated with disposal group classified as held for sale	453	–
Net assets of disposal group classified as held for sale	1,660	–
Reserve		
Foreign currency translation reserve	3,890	–

13. Earnings per share

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

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

13. Earnings per share (cont'd)

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

	Group	
	2012	2011
Profit for the year attributable to owners of the Company ($'000)	17,948	44,989
Weighted average number of ordinary shares for basic earnings per share computation ('000)	845,516	852,236
Dilution effects of share options ('000)	1,288	–
Weighted average number of ordinary shares for the effect of dilution ('000)	846,804	852,236
Basic earnings per share (cents)	2.12	5.28
Diluted earnings per share (cents)	2.12	5.28

5,864,500 (2011: Nil) share options granted to employees under the existing employee share option plan have been included in the calculation of diluted earnings per share ("EPS").

There were 16,437,555 (2011: 18,754,000) options granted to the directors and employees of the Company and its subsidiaries since the commencement of the Option Scheme which have not been included in the calculation of diluted earnings per share because they are anti-dilutive for the financial periods presented.

Since the end of the financial year, senior executives have exercised options to acquire 1,452,500 (2011: Nil) ordinary shares. There have been no other significant transactions involving ordinary shares or potential ordinary shares since the reporting date and before the completion of these financial statements.

14. Property, plant and equipment

Group	Factory buildings and leasehold improvements $'000	Construction -in-progress $'000	Renovation $'000	Plant and machinery $'000	Motor vehicles $'000	Office equipment, furniture and fittings $'000	Total $'000
Cost							
At 1 January 2011	60,987	6,177	51,644	322,314	1,257	29,677	472,056
Additions	481	15,999	10,643	53,637	–	5,976	86,736
Reclassification	1,130	3,365	3,908	(8,651)	(32)	280	–
Disposals	–	–	(5,928)	(11,426)	(140)	(845)	(18,339)
Written off	–	–	(1,567)	(1,950)	–	(445)	(3,962)
Translation difference	968	17	1,961	15,484	16	1,157	19,603
At 31 December 2011 and 1 January 2012	63,566	25,558	60,661	369,408	1,101	35,800	556,094
Additions	41	64,385	8,287	90,803	89	2,905	166,510
Reclassification	162	(69,147)	25,975	42,571	–	439	–
Disposals	–	–	(4,211)	(22,074)	(44)	(728)	(27,057)
Written off	–	–	(4,444)	(2,212)	–	(1,024)	(7,680)
Translation difference	(1,485)	(998)	(2,997)	(14,688)	(27)	(1,383)	(21,578)
At 31 December 2012	62,284	19,798	83,271	463,808	1,119	36,009	666,289

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

Group	Factory buildings and leasehold improvements $'000	Construction -in-progress $'000	Renovation $'000	Plant and machinery $'000	Motor vehicles $'000	Office equipment, furniture and fittings $'000	Total $'000
Accumulated depreciation and impairment loss							
At 1 January 2011	8,279	–	35,928	148,949	784	22,567	216,507
Charge for the year	3,733	–	7,919	42,287	165	5,383	59,487
Impairment loss provided	–	–	333	7,516	–	60	7,909
Reclassification	–	–	771	(758)	(11)	(2)	–
Disposals	–	–	(5,870)	(10,237)	(118)	(815)	(17,040)
Written off	–	–	(1,483)	(1,858)	–	(421)	(3,762)
Translation difference	(128)	–	1,620	6,698	17	394	8,601
At 31 December 2011 and 1 January 2012	11,884	–	39,218	192,597	837	27,166	271,702
Charge for the year	3,839	–	8,753	51,959	96	5,102	69,749
Impairment loss provided/ (written back)	–	–	729	(315)	–	14	428
Disposals	–	–	(4,099)	(19,189)	(35)	(681)	(24,004)
Written off	–	–	(3,445)	(1,934)	–	(1,006)	(6,385)
Translation difference	5	–	(1,439)	(5,877)	(26)	(1,776)	(9,113)
At 31 December 2012	15,728	–	39,717	217,241	872	28,819	302,377
Net carrying amount							
At 31 December 2012	46,556	19,798	43,554	246,567	247	7,190	363,912
At 31 December 2011	51,682	25,558	21,443	176,811	264	8,634	284,392

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

Company	Factory buildings and leasehold improvements $'000	Renovation $'000	Plant and machinery $'000	Motor vehicles $'000	Office equipment, furniture and fittings $'000	Total $'000
Cost						
At 1 January 2011	16,617	841	21,629	515	3,246	42,848
Additions	319	103	820	–	162	1,404
Disposals	–	–	(1,124)	(35)	(3)	(1,162)
Written off	–	–	(275)	–	(139)	(414)
At 31 December 2011 and 1 January 2012	16,936	944	21,050	480	3,266	42,676
Additions	–	48	1,356	–	73	1,477
Disposals	–	–	(781)	–	(4)	(785)
Written off	–	–	(180)	–	(68)	(248)
At 31 December 2012	16,936	992	21,445	480	3,267	43,120
Accumulated depreciation						
At 1 January 2011	3,597	530	16,333	176	3,018	23,654
Charge for the year	306	111	1,702	90	112	2,321
Disposals	–	–	(921)	(30)	(3)	(954)
Written off	–	–	(275)	–	(139)	(414)
At 31 December 2011 and 1 January 2012	3,903	641	16,839	236	2,988	24,607
Charge for the year	315	117	1,745	86	117	2,380
Disposals	–	–	(699)	–	(4)	(703)
Written off	–	–	(180)	–	(68)	(248)
At 31 December 2012	4,218	758	17,705	322	3,033	26,036
Net carrying amount						
At 31 December 2012	12,718	234	3,740	158	234	17,084
At 31 December 2011	13,033	303	4,211	244	278	18,069

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

Assets held under finance leases

During the current and prior financial year, the Group has not acquired any property, plant and equipment by means of finance leases.

The carrying amount of renovation and motor vehicle held by the Group under finance leases at the end of reporting period were $1,975,000 (2011: $2,362,000) and $Nil (2011:$237,000) respectively.

Leased assets are pledged as security for the related finance lease liabilities.

Assets mortgaged under entrusted loans arrangement

The Group's plant and machinery with a carrying amount of $10,091,000 (2011: $13,935,000) is mortgaged to Agricultural Bank of China for the entrusted loans arranged.

Impairment of assets

During the financial year, some subsidiaries of the Group carried out a review of the recoverable amount of its property, plant and equipment because some plant and machinery had been persistently idle, and full impairment loss of $428,000 (2011: $7,909,000) was recognised in the "Other expenses" (Note 8) line item in profit or loss for the financial year ended 31 December 2012.

15. Land use rights

	Group	
	2012	2011
	$'000	$'000
Cost:		
Acquisition during the year and at 31 December	1,365	–
Amount to be amortised:		
- Not later than one year	155	–
- Later than one year but not later than five years	621	–
- Later than five years	6,992	–

The Group has land use right over a plot of state-owned land in People's Republic of China ("PRC") where the Group's manufacturing and storage facilities are expected to reside. The land use right has a useful life of 50 years.

16. Investment in subsidiaries

	Company 2012 $'000	Company 2011 $'000
Shares, at cost	311,832	266,675
Amount due from a subsidiary	25,556	25,556
	337,388	292,231
Impairment losses	(84,410)	(84,410)
	252,978	207,821
Movement in impairment losses:		
At 1 January	84,410	89,486
Disposal	–	(5,076)
At 31 December	84,410	84,410

The amount due from a subsidiary is unsecured, non-interest bearing and has no fixed terms of repayment. Accordingly, the fair value of this amount is not determinable as the timing of the future cash flow arising from this amount cannot be estimated reliably.

Details of subsidiaries are as follows:

Name of company	Principal activities	Country of incorporation and place of business	Equity interest held by the Group 2012 %	Equity interest held by the Group 2011 %	Cost of investment 2012 $'000	Cost of investment 2011 $'000
Held by the Company						
Hi-P Shanghai Electronics Co., Ltd. ***	Manufacture of molds	People's Republic of China	100	100	10,737	10,737
Hi-P (Shanghai) Automation Engineering Co., Ltd. ***	Development, design and manufacture of automated machinery and equipments	People's Republic of China	100	100	8,489	8,489
Hi-P Precision Plastic Manufacturing (Shanghai) Co., Ltd. ***	Spray painting	People's Republic of China	100	100	3,769	3,769

16. Investment in subsidiaries (cont'd)

Name of company	Principal activities	Country of incorporation and place of business	Equity interest held by the Group 2012 %	Equity interest held by the Group 2011 %	Cost of investment 2012 $'000	Cost of investment 2011 $'000
Held by the Company						
Hi-P (Shanghai) Housing Appliance Co., Ltd. ***	Manufacture of molds, related housing appliance plastic components and equipments, water treatment equipments	People's Republic of China	100	100	15,001	15,001
Hi-P (Suzhou) Precision Mold & Die Co., Ltd. ***	Manufacture and sale of molds and plastic components	People's Republic of China	100	100	4,258	4,258
Hi-P (Xiamen) Precision Plastic Manufacturing Co., Ltd. ***@	Manufacture and sale of plastic product modules	People's Republic of China	100	100	12,849	8,438
High Precision Moulding and Tools, S.A. de C.V. **	Dormant (Note 12)	Mexico	100	100	38,379	38,379
Hi-P Poland SP. ZO.O. **	Manufacture and sale of molds and plastic components	Poland	100	100	3,342	3,342
Hi-P (Chengdu) Precision Plastic Manufacturing Co., Ltd.***	Manufacture of molds	People's Republic of China	100	100	8,568	8,568
Hi-P (Chengdu) Mold Base Manufacturing Co., Ltd. ***	Manufacture of mold base and components	People's Republic of China	100	100	5,070	5,070
Hi-P (Thailand) Co., Ltd.**	Manufacture and sale of molds and plastic components	Thailand	100	100	2,992	2,992
Hi-P Tianjin Electronics Co., Ltd. ***	Manufacture and sale of molds, plastic, electric components and electronic communication equipments	People's Republic of China	100	100	30,957	30,957
Hi-P (Tianjin) Technology Co., Ltd. ***	Manufacture and sale of molds, plastic and electric components	People's Republic of China	100	100	24,764	24,764

16. Investment in subsidiaries (cont'd)

Name of company	Principal activities	Country of incorporation and place of business	Equity interest held by the Group		Cost of investment	
			2012	2011	2012	2011
			%	%	$'000	$'000
Held by the Company						
Hi-P (Suzhou) Electronics Co., Ltd. ***	Manufacture and sale of trays	People's Republic of China	100	100	8,311	8.311
Hi-P Lens Technology (Shanghai) Co., Ltd. ***	Manufacture and production of in-mold decoration lenses and provide related technology consultation and services	People's Republic of China	100	100	4,588	4,588
Hi-P (Shanghai) Technology Co., Ltd. ***	Manufacture and sale of molds, plastic components and equipments, provide related maintenance services and technology consultation and develop, design and sale of molds and special tools	People's Republic of China	100	100	14,367	14,367
Hi-P (Shanghai) Precision Mold & Die Co., Ltd. ***	Manufacture of molds	People's Republic of China	100	100	6,506	6,506
Hi-P (Tianjin) Precision Mold & Die Co., Ltd. ***	Manufacture of molds	People's Republic of China	100	100	7,590	7,590
Hi-P North America, Inc. ***	Provision of engineering support services	United States of America	100	100	676	676
Hi-P GmbH [1#]	Dormant	Germany	100	100	51	51
Hi-P (Singapore) Technology Pte. Ltd. *	Manufacture of metal precision components	Singapore	100	100	1,500	1,500

16. Investment in subsidiaries (cont'd)

Name of company	Principal activities	Country of incorporation and place of business	Equity interest held by the Group 2012 %	Equity interest held by the Group 2011 %	Cost of investment 2012 $'000	Cost of investment 2011 $'000
Held by the Company						
Hi-P (Shanghai) Stamping Mold & Component Industries Co., Ltd.***	Design and manufacture of metal and non-metal stamping, molds and electric components	People's Republic of China	100	100	11,260	11,260
Hi-P Global Trading Ltd.[2#]	Liquidated	Mauritius	–	100	–	85
Qingdao Haier Hi-P Science Technology Co., Ltd. ***	Manufacture and sale of plastic product modules	People's Republic of China	70	70	2,544	2,544
Hi-P Electronics Pte. Ltd. *	Sales and purchases of tools, moulds, plastic and metal components, equipment, commodities, and scrap material	Singapore	100	100	200	200
Hi-P Flex Pte. Ltd. *	Investment holding	Singapore	100	100	42,130	42,130
Hi-P (Shanghai) Precision Metal Co., Ltd. (f.k.a. Hi-P (Shanghai) Industries Co., Ltd.) ***	Manufacture of precision stamped metal components and precision tools and die design and fabrication	People's Republic of China	100	100	1,840	1,840
Hi-P Technology Co., Ltd. #	International sales and marketing activities	The Republic of Taiwan	100	100	263	263
Hi-P (Nantong) Technology Co., Ltd.[3***]	Manufacture and sale of electronic telecommunication devices, housing appliances, automated equipments and related components, provide related maintenance services and technology consultation and develop, design and sale of molds and special tools	People's Republic of China	100	–	40,831	–

16. Investment in subsidiaries (cont'd)

Name of company	Principal activities	Country of incorporation and place of business	Equity interest held by the Group		Cost of investment	
			2012	2011	2012	2011
			%	%	$'000	$'000
Held through a subsidiary						
Hi-P (Suzhou) Electronics Technology Co., Ltd. ***	Manufacture, SMT, assembly and trading of flexible printed circuit boards and flexible rigid printed circuit boards. Manufacture, assembly and sales of molds and plastic components	People's Republic of China	100	100	–	–
					311,832	266,675

* Audited by Ernst & Young LLP, Singapore.

** Audited by member firms of Ernst & Young Global in respective countries.

*** Audited by local auditors in respective countries.

\# Not required to be audited by the laws of its country of incorporation.

@ During the financial year, the Company increased its investment in Hi-P (Xiamen) Precision Plastic Manufacturing Co., Ltd. by $4,410,820 through re-investment of dividend income declared by Hi-P Lens Technology (Shanghai) Co., Ltd. in 2011.

[1] Hi-P GmbH is undergoing liquidation as at year end.

[2] Hi-P Global Trading Ltd. has filed for voluntary liquidation successfully in February 2012.

[3] Hi-P (Nantong) Technology Co., Ltd. is a new company set up in September 2012.

17. Investment in associates

	Group 2012 $'000	Group 2011 $'000	Company 2012 $'000	Company 2011 $'000
Unquoted equity shares, at cost	984	1,478	984	1,478
Share of post-acquisition reserves	778	726	–	–
Amortisation of goodwill acquired	124	124	–	–
	1,886	2,328	984	1,478

Details of associates are as follows:

Name of company	Principal activities	Country of incorporation and place of business	Effective equity interest held by the Group 2012 %	Effective equity interest held by the Group 2011 %	Cost of investment by the Company 2012 $'000	Cost of investment by the Company 2011 $'000
Held by the Company						
Express Tech Mfg Pte. Ltd.*	Manufacture and sale of plastic products and engineering parts	Singapore	30	30	503	503
Hi-Tec Precision Mould Pte. Ltd. [1]**	Manufacture and repair of machinery, machine tools and machine tool accessories and die-casting	Singapore	–	40	–	494
Design Exchange Pte. Ltd. ***	Provision of product design and development services from concept ideation to mass production support	Singapore	40	40	481	481
					984	1,478

[1] On 25 July 2012, the Company disposed off its 40% shareholding in Hi-Tec Precision Mould Pte. Ltd.

* Audited by Ascent CPA.

** Audited by NSC & Associates PAC.

*** Audited by Wong, Lee Associate.

17. Investment in associates (cont'd)

The summarised financial information of the associates not adjusted for the proportion of ownership interest held by the Group is as follows:

	2012 $'000	2011 $'000
Assets and liabilities:		
Current assets	11,286	11,480
Non-current assets	703	1,415
Total assets	11,989	12,895
Current liabilities	4,895	4,990
Non-current liabilities	274	338
Total liabilities	5,169	5,328
Results:		
Revenue	9,636	12,056
Profit for the year	518	398

18. Other investment

	Group and Company	
	2012 $'000	2011 $'000
Club membership:		
At cost	36	36
Impairment loss	(24)	(24)
	12	12

Club membership is classified as an intangible asset. There is no amortisation expense for club membership as the amount is assessed to be insignificant.

19. Inventories

	Group 2012 $'000	Group 2011 $'000	Company 2012 $'000	Company 2011 $'000
Balance sheet:				
Work-in-progress	48,915	41,818	1,826	1,975
Raw materials	44,408	45,332	295	312
Finished goods	52,186	37,682	1,663	1,602
	145,509	124,832	3,784	3,889

	Group 2012 $'000	Group 2011 $'000
Income statement:		
Inventories recognised as an expense in cost of sales inclusive of the following charge:	699,244	751,675
- Inventories written back	(1,137)	(2,158)
- Allowance for inventory obsolescence	5,299	2,943

The inventories written back mainly arose from recycle of tools and consumables.

20. Trade and other receivables

	Group 2012 $'000	Group 2011 $'000	Company 2012 $'000	Company 2011 $'000
Trade and other receivables (current):				
Trade receivables	291,675	257,913	7,001	8,466
Other receivables	7,275	11,082	1	6
USD loans to subsidiaries	–	–	29,621	36,130
Amounts due from subsidiaries	–	–	11,547	95,323
Dividend receivable from an associate	150	–	150	–
Amounts due from non-controlling interests of a subsidiary	788	806	–	–
Input tax/ VAT	26,243	20,195	223	278
Refundable deposits	2,338	3,322	74	80
	328,469	293,318	48,617	140,283

20. Trade and other receivables (cont'd)

	Group		Company	
	2012	2011	2012	2011
	$'000	$'000	$'000	$'000
Other receivables (non-current):				
USD loans to subsidiaries	–	–	89,047	60,649
Total trade and other receivables (current and non-current)	328,469	293,318	137,664	200,932
Add: Cash and cash equivalents and short term deposits pledged (Note 23)	177,508	339,713	18,249	48,297
Total loans and receivables	505,977	633,031	155,913	249,229

Trade and other receivables

Trade and other receivables are non-interest bearing and are generally on 30 to 90 days' terms. They are recognised at their original invoice amounts which represent their fair values on initial recognition.

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

	Group		Company	
	2012	2011	2012	2011
	$'000	$'000	$'000	$'000
United States Dollar	278,746	236,572	7,001	8,466
Renminbi	6,756	16,561	–	–
Euro	6,068	4,502	–	–
Thai Baht	96	257	–	–
Japanese Yen	–	21	–	–

USD loans to subsidiaries

Loans to subsidiaries are unsecured and bear interest between 2% to 6% per annum. The loans are repayable ranging from 1 year to 5 years and to be settled in cash.

Related party balances

- Amounts due from subsidiaries are unsecured, non-interest bearing and repayable on demand in cash.
- Amounts due from non-controlling interests of a subsidiary are unsecured, non-interest bearing and repayable on demand in cash. They are recognised at their original invoice amounts which represent their fair values on initial recognition.

20. Trade and other receivables (cont'd)

Receivables that are past due but not impaired

The Group has trade receivables amounting to $42,140,000 (2011: $45,322,000) that are past due at the end of reporting period but not impaired. These receivables are unsecured and the analysis of their aging at the end of the reporting period is as follows:

	Group	
	2012	2011
	$'000	$'000
Trade receivables past due :		
Lesser than 30 days	36,544	40,122
30 to 60 days	2,781	4,205
61 to 90 days	986	824
More than 90 days	1,829	171
	42,140	45,322

Receivables that are impaired

The Group's trade receivables that are impaired at the end of reporting period and the movement of the allowance accounts used to record the impairment are as follows:

	Group	
	Individually impaired	
	2012	2011
	$'000	$'000
Trade receivables – nominal amounts	874	942
Less: Allowance for impairment	(874)	(942)
	–	–
Movement in allowance accounts for trade receivables:		
At 1 January	942	1,600
Charge/ (write-back) for the year	149	(645)
Written off	(201)	–
Exchange differences	(16)	(13)
At 31 December	874	942

Trade receivables that are individually determined to be impaired at the end of reporting period relate to debtors that are in significant financial difficulties and have defaulted on payments. These receivables are not secured by any collateral or credit enhancements.

At the end of reporting period, the Group has provided an allowance of $13,000 (2011: $13,000) for impairment of the unsecured amounts due from non-controlling interests of a subsidiary with a net amount of $788,000 (2011: $806,000).

21. Derivatives

	2012			2011		
	Contract/ Notional Amount USD'000	Assets $'000	Liabilities $'000	Contract/ Notional Amount USD'000	Assets $'000	Liabilities $'000
Group						
Forward currency contracts	177,159	1,401	(678)	264,837	984	(2,835)
Total financial assets/ (liabilities) at fair value through profit or loss classified as held for trading		1,401	(678)		984	(2,835)
Company						
Forward currency contracts	162,000	1,190	(678)	212,250	692	(2,237)
Total financial assets/ (liabilities) at fair value through profit or loss classified as held for trading		1,190	(678)		692	(2,237)

Forward currency contracts are used to hedge foreign currency risk arising from the Group's sales and purchases denominated in USD and EUR for which firm commitments existed at the end of reporting period, extending to December 2013 (2011: November 2013) (Note 35(b)).

22. Other long term asset

Other long term asset relates to prepayment by subsidiaries of the Group for upgrading the electric capacity of factories in Tianjin and Shanghai. The prepayments made will be amortised over a period of 3 and 5 years (2011: 3 years) respectively.

23. Cash and cash equivalents and short term deposits pledged

	Group		Company	
	2012	2011	2012	2011
	$'000	$'000	$'000	$'000
Cash at banks and in hand	126,416	132,455	18,249	48,297
Short term fixed deposits	51,092	207,258	–	–
Cash and short term deposits	177,508	339,713	18,249	48,297
Less: short term deposits pledged	(11,491)	(75,651)	–	–
Cash and cash equivalents	166,017	264,062	18,249	48,297

Cash at banks earn interest at floating rates based on daily bank deposit rates. Short term fixed deposits are made for varying periods of between 1 day and 6 months depending on the immediate cash requirements of the Group, and earned interest at the respective short term fixed deposit rates. The weighted average effective interest rates as at 31 December 2012 for the Group and the Company were 2.62% (2011: 1.76%) and 0.36% (2011: 0.28%) respectively.

Cash and cash equivalents and short term deposits pledged denominated in foreign currencies at 31 December are as follows:

	Group		Company	
	2012	2011	2012	2011
	$'000	$'000	$'000	$'000
United States Dollar	55,624	139,939	4,609	2,062
Renminbi	89,846	136,385	–	–
Euro	3,670	1,808	18	30
Mexican Peso	–	922	–	–
Poland Zloty	9,301	10,312	–	–
Thai Baht	4,612	2,541	–	–
New Taiwan Dollar	245	180	–	–

24. Trade and other payables

	Group 2012 $'000	Group 2011 $'000	Company 2012 $'000	Company 2011 $'000
Trade and other payables (current):				
Trade payables	217,877	207,307	3,478	4,384
Other payables	60,023	104,048	139	370
Amounts due to subsidiaries	–	–	4,626	11,116
USD loan from a subsidiary	–	–	3,086	–
Total trade and other payables	277,900	311,355	11,329	15,870
Add:				
- Accrued operating expenses	32,189	33,467	6,048	10,586
- Loans and borrowings (Note 26)	144,301	119,417	80,223	116,176
Total financial liabilities carried at amortised cost	454,390	464,239	97,600	142,632

Trade payables

Trade payables are non-interest bearing and are normally settled on 30 to 90 days' terms.

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

	Group 2012 $'000	Group 2011 $'000	Company 2012 $'000	Company 2011 $'000
United States Dollar	67,319	91,690	1,805	2,712
Renminbi	145,364	108,576	–	–
Euro	2,596	3,400	–	5
Mexican Peso	–	49	–	–
Poland Zloty	438	731	–	–
Thai Baht	357	672	–	–
New Taiwan Dollar	9	19	9	19
Japanese Yen	67	48	–	–
Hongkong Dollar	–	10	–	–
Sterling Pound	58	256	–	–
Swiss Franc	6	6	–	–

USD loan from a subsidiary

USD loan from a subsidiary is unsecured and bear interest of 2% per annum. The loan is repayable on or before 31 December 2013 and to be settled in cash.

24. Trade and other payables (cont'd)

Other payables

Other payables include amounts due to creditors in relation to the purchase of property, plant and equipment. These balances are non-interest bearing and have an average term of 30 to 90 days.

Other payables include an amount of $11,491,000 (2011: $75,651,000) pertaining to 2 (2011: 2) China subsidiaries of the Group which have arrangements with a China bank that appoints its overseas agent bank to settle trade payable owing by them. These other payables bear interest ranging from 0.81% to 0.91% (2011: 2.86% to 3.56%) per annum with repayment period of 3 months. Fixed deposit of $11,491,000 (2011: $75,651,000) which earns interest at 1.11% (2011: 4.26% to 4.56%) per annum has been held as collateral against these payables.

Amounts due to subsidiaries

These amounts are mainly non-trade, unsecured, non-interest bearing and repayable on demand in cash.

25. Provisions

	Group	
	2012	2011
	$'000	$'000
Arose during the financial year and at 31 December	3,918	–

A provision is recognised for expected warranty claims based on current sales levels and estimated level of repairs and returns and terms of warranty programs.

26. Loans and borrowings

		Group		Company	
		2012	2011	2012	2011
	Maturity	$'000	$'000	$'000	$'000
Current:					
Short term loans	2013	141,687	116,109	80,223	116,109
Obligations under finance lease	2013	541	583	–	67
		142,228	116,692	80,223	116,176
Non-current:					
Obligations under finance lease	2014-2017	2,073	2,725	–	–
Total loans and borrowings		144,301	119,417	80,223	116,176

26. Loans and borrowings (cont'd)

Short term loans (unsecured)

The Company has drawn down short term loans at fixed rates of interest for hedging and general working capital purposes for its China subsidiaries. The weighted average interest rate as at 31 December 2012 for the Company was 1.26% (2011: 1.22%) per annum. The loans are repayable in 2013.

Obligations under finance lease

These obligations are secured by a charge over the leased assets (Note 14). The effective interest rate on the finance lease is 9.0% (2011: 2.2% to 9.0%) per annum. These obligations are denominated in the respective functional currencies of the relevant entities in the Group.

The Group has finance leases for certain items of renovation (Note 14). These leases have terms of renewal but no purchase options and escalation clauses. There are no restrictions placed upon the Group by entering into these leases. Renewals are at the option of the specific entity that holds the lease.

Future minimum lease payments under finance leases together with the present value of the net minimum lease payments are as follows:

	Group		Company	
2012	**Total minimum lease payments $'000**	**Present value of payments $'000**	**Total minimum lease payments $'000**	**Present value of payments $'000**
Within one year	754	541	–	–
After one year but not more than five years	2,390	2,073	–	–
Total minimum lease payments	3,144	2,614	–	–
Less amounts representing finance charges	(530)	–	–	–
Present value of minimum lease payments	2,614	2,614	–	–

	Group		Company	
2011	**Total minimum lease payments $'000**	**Present value of payments $'000**	**Total minimum lease payments $'000**	**Present value of payments $'000**
Within one year	858	583	72	67
After one year but not more than five years	3,147	2,595	–	–
More than five years	131	130	–	–
Total minimum lease payments	4,136	3,308	72	67
Less amounts representing finance charges	(828)	–	(5)	–
Present value of minimum lease payments	3,308	3,308	67	67

27. Deferred tax

Deferred tax as at 31 December relates to the following:

	Group			
	Consolidated balance sheet		Consolidated income statement	
	2012	2011	2012	2011
	$'000	$'000	$'000	$'000
Deferred tax liability				
Differences in depreciation for tax purposes	(185)	(170)	17	31
Fair value adjustments on acquisition of subsidiary	(1,182)	(1,182)	–	–
Provision for Flat Rate Business Tax ("IETU")	–	(64)	–	(123)
Interest income accrued from fixed deposits	(17)	(166)	(150)	166
Other items	(18)	–	18	–
	(1,402)	(1,582)		
Deferred tax asset				
Provisions	7,226	11,402	3,417	(282)
Unutilised tax losses	5,413	2,324	(3,198)	(2,324)
Differences in depreciation for tax purposes	101	187	77	208
Other items	–	61	61	383
	12,740	13,974		
Deferred tax expense/ (credit) (Note 11)			242	(1,941)

Unrecognised tax losses

At the end of reporting period, the Group has tax losses of approximately $121,868,000 (2011: $127,589,000) that are available for offset against future taxable profits of the companies in which the losses arose for which no deferred tax asset is recognised due to uncertainty of its recoverability. The use of these tax losses is subject to the agreement of the tax authorities and compliance with certain provisions of the tax legislation of the respective countries in which the companies operate.

The table below shows the maximum number of years that the unutilised tax losses could be carried forward in respective countries:

Countries	Number of years
People's Republic of China	5
Thailand	5
Mexico	10

27. Deferred tax (cont'd)

Unrecognised temporary differences relating to investments in subsidiaries

At the end of reporting period, the Group has recognised withholding tax liabilities of $5,781,000 (2011: $5,954,000) that would be payable on the undistributed earnings of certain of the Group's subsidiaries, on the following basis:

- The Group has determined that 50% (2011: 50%) of the earnings of its subsidiaries will be distributed in the foreseeable future based on historical trend.

Temporary differences on the remaining earnings for which no withholding tax liability has been recognised, aggregate to $115,624,000 (2011: $119,082,000). Such withholding tax liability is estimated to be $5,781,000 (2011: $5,954,000).

Tax consequences of proposed dividends

There are no income tax consequences (2011: Nil) attached to the dividends to the shareholders proposed by the Company but not recognised as a liability in the financial statements (Note 31).

28. Share capital and treasury shares

a) Share capital

	Group and Company			
	2012		2011	
	No. of shares '000	$'000	No. of shares '000	$'000
Issued and fully paid ordinary shares:				
At 1 January and 31 December	887,175	119,725	887,175	119,725

The holders of ordinary shares (except treasury shares) are entitled to receive dividends as and when declared by the Company. All ordinary shares carry one vote per share without restrictions. The ordinary shares have no par value.

The Company has an employee share option scheme (Note 30) pursuant to which options to subscribe for the Company's ordinary shares have been granted to employees of the Group.

28. Share capital and treasury shares (cont'd)

b) Treasury shares

	Group and Company			
	2012		2011	
	No. of shares '000	$'000	No. of shares '000	$'000
At 1 January	(61,288)	(44,235)	(51,969)	(34,040)
Acquired during the financial year	(1,638)	(1,095)	(11,094)	(11,470)
Reissued pursuant to employee share option plans:				
- For cash on exercise of employee share options (Note 30)	1,453	1,075	1,775	1,289
- Transferred from employee share option reserve	–	313	–	362
- Gain transferred to gain or loss on reissuance of treasury shares	–	(343)	–	(376)
	1,453	1,045	1,775	1,275
At 31 December	(61,473)	(44,285)	(61,288)	(44,235)

Treasury shares relate to ordinary shares of the Company that is held by the Company.

The Company acquired 1,638,000 (2011: 11,094,000) shares in the Company through purchases on the Singapore Exchange during the financial year. The total amount paid to acquire the shares was $1,095,000 (2011: $11,470,000) and this is presented as a component within shareholders' equity.

29. Other reserves and accumulated profits

Other reserves

	Group		Company	
	2012	2011	2012	2011
	$'000	$'000	$'000	$'000
Statutory reserve fund (a)	48,967	48,202	–	–
Foreign currency translation reserve (b)	(31,775)	(11,089)	–	–
Capital reserve (c)	169	169	–	–
Employee share option reserve (d)	7,727	5,893	7,727	5,893
	25,088	43,175	7,727	5,893

29. Other reserves and accumulated profits (cont'd)

Other reserves (cont'd)

a) Statutory reserve fund

In accordance with the Foreign Enterprise Law applicable to the subsidiaries in the People's Republic of China ("PRC"), the subsidiaries are required to make appropriation to a Statutory Reserve Fund ("SRF"). At least 10% of the statutory after tax profits as determined in accordance with the applicable PRC accounting standards and regulations must be allocated to the SRF until the cumulative total of the SRF reaches 50% of the subsidiaries' registered capital. Subject to approval from the relevant PRC authorities, the SRF may be used to offset any accumulated losses or increase the registered capital of the subsidiaries. The SRF is not available for dividend distribution to shareholders.

	Group	
	2012	2011
	$'000	$'000
At 1 January	48,202	46,370
Transfer from retained earnings	783	1,809
Share of other comprehensive income of associates	5	23
Reversal of other comprehensive income upon disposal of an associate	(23)	–
At 31 December	48,967	48,202

b) Foreign currency translation reserve

The foreign currency translation reserve records exchange differences arising from the translation of the financial statements of foreign operations whose functional currencies are different from that of the Group's presentation currency.

	Group	
	2012	2011
	$'000	$'000
At 1 January	(11,089)	(29,113)
Net effect of exchange differences arising from translation of financial statements of foreign operations	(16,788)	18,024
Reversal of exchange differences upon disposal of an associate	(8)	–
Reserve attributable to disposal group classified as held for sale	(3,890)	–
At 31 December	(31,775)	(11,089)

29. Other reserves and accumulated profits (cont'd)

Other reserves (cont'd)

c) Capital reserve

Capital reserve arises from acquisition of the remaining non-controlling interests in a subsidiary – Hi-P Flex Pte. Ltd. on 13 May 2010.

	Group	
	2012	2011
	$'000	$'000
At 1 January and 31 December	169	169

d) Employee share option reserve

Employee share option reserve represents the equity-settled share options granted to employees (Note 30). The reserve is made up of the cumulative value of services received from employees recorded over the vesting period commencing from the grant date of equity-settled share options and is reduced by the expiry or exercise of the share options.

	Group and Company	
	2012	2011
	$'000	$'000
At 1 January	5,893	3,837
Equity compensation expense	2,000	2,155
Forfeited during the year	(196)	(113)
Exercised during the year	30	14
At 31 December	7,727	5,893

e) Accumulated profits

	Company	
	2012	2011
	$'000	$'000
At 1 January	255,091	233,894
Profit net of tax and total comprehensive income for the year	15,680	51,008
Dividends on ordinary shares (Note 31)	(19,824)	(29,811)
At 31 December	250,947	255,091

30. Equity compensation benefits

The Hi-P Employee Share Option Scheme (the "Option Scheme") was approved and adopted at the Company's Extraordinary General Meeting held on 7 October 2003. The Option Scheme applies to executive directors, employees of the Group, controlling shareholders and their associates. The Option Scheme is administered by the Remuneration Committee, comprising Mdm Leong Lai Peng (Chairman), Mr Chester Lin Chien and Mr Gerald Lim Thien Su.

Other information regarding the Option Scheme is set out below:

(i) The exercise price of the options is determined at a price equal to the Market Price or a price which is set at a discount to the Market Price (subject to a maximum discount of 20%). Market price is equal to the average of the last dealt prices for the Company's shares on the Singapore Exchange Securities Trading Limited (SGX-ST) for the five consecutive business days immediately preceding the date of grant of such options.

(ii) 50% of the options granted in each year vest one year after the grant date, and the remaining 50% vest two years after the grant date, with the exception of the options granted in 2012, 33% of which vest one year after the grant date, 33% of which vest two years after the grant date, and the remaining 34% of which vest three years after the grant date, pursuant to the Resolutions in Writing of the Remuneration Committee passed on 11 April 2012.

(iii) The options expire 10 years after the grant date.

(iv) The options are only settled by equity.

The following table illustrates the number ("No.") and weighted average exercise prices ("WAEP") of, and movements in, equity share options during the financial year.

	No. 2012 '000	WAEP 2012 $	No. 2011 '000	WAEP 2011 $
Outstanding at 1 January	18,754	1.01	13,120	0.84
- Granted	8,367	0.95	8,763	1.21
- Lapsed or forfeited	(3,366)	0.99	(1,354)	0.94
- Exercised	(1,453)	0.74	(1,775)	0.73
Outstanding at 31 December	22,302	1.01	18,754	1.01
Exercisable at 31 December	11,905	0.99	6,023	0.97

The range of exercise prices for options outstanding at the end of the year was $0.67 to $1.48 (2011: $0.67 to $1.54). The weighted average remaining contractual life for these options is 7.58 years (2011: 8.04 years).

There were 8,366,852 (2011: 8,763,000) options granted during the financial year ended 31 December 2012.

30. Equity compensation benefits (cont'd)

The fair value of the share options granted is estimated at the grant date using a binomial option pricing model, taking into account the terms and conditions upon which the options were granted. The inputs to the model used for the years ended 31 December 2012 and 2011 are shown below:

	2012	2011
Expected volatility (%)	43.66	42.73
Risk-free interest rate (%)	0.90	1.49
Expected dividend yield (%)	3.00	3.16
Expected life of options (years)	6.01	5.75
Weighted average share price ($)	0.95	1.21

31. Dividends

	Group and Company	
	2012	2011
	$'000	$'000
Declared and paid during the financial year		
Dividend on ordinary shares:		
• Final exempt one-tier dividend for 2011: 2.4 cents (2010: 3.6 cents) per share	19,824	29,811
Proposed but not recognised as a liability as at 31 December		
Dividend on ordinary shares, subject to shareholders' approval at the Annual General Meeting:		
• Final exempt one-tier dividend for 2012: 1.2 cents (2011: 2.4 cents) per share	9,908	19,800

32. Commitments

a) Capital commitments

Capital expenditure contracted for as at the end of reporting period but not recognised in the financial statements are as follows:

	Group		Company	
	2012	2011	2012	2011
	$'000	$'000	$'000	$'000
Capital commitments in respect of property, plant and equipment	13,631	26,039	732	470

b) Operating lease commitments

The Group and Company have entered into commercial leases on plant and machinery, land use rights, motor vehicles, office equipment, factory sites, offices and staff accommodation. The lease terms range from 1 year to 30 years with options to purchase or renew at the end of the lease terms. Operating lease payments recognised as an expense in profit or loss for the financial year ended 31 December 2012 amounted to $18,787,000 (2011: $17,217,000) (Note 9).

Future minimum rental payables under non-cancellable leases at the end of reporting period are as follows:

	Group		Company	
	2012	2011	2012	2011
	$'000	$'000	$'000	$'000
Within one year	14,235	15,390	267	251
Later than one year but not later than five years	19,196	22,418	953	917
Later than five years	7,514	2,093	1,751	1,872
	40,945	39,901	2,971	3,040

33. Contingencies

Guarantees

The Company granted corporate guarantees of $12,524,000 (2011: $31,806,000) in favour of third party suppliers for purchases made by subsidiaries as at 31 December 2012.

The Company granted corporate guarantees of $43,396,000 (2011: $68,263,000) in favour of banks for credit facilities provided to subsidiaries as at 31 December 2012.

Certain subsidiaries utilised the bankers' guarantees of the Company of $1,012,000 (2011: $1,568,000) in favour of third party suppliers for purchases made by subsidiaries as at 31 December 2012.

34. Related party transactions

a) Sale and purchase of goods and services

In addition to the related party information disclosed elsewhere in the financial statements, the following significant transactions between the Group and related parties took place on terms agreed between the parties during the financial year:

	Group		Company	
	2012	2011	2012	2011
	$'000	$'000	$'000	$'000
Income				
Sales to a corporate shareholder and companies related to the shareholder	108	265	–	–
Sales of materials, goods and services to subsidiaries	–	–	1,452	982
Sales of property, plant and equipment to a subsidiary	–	–	82	203
Dividend income from subsidiaries	–	–	6,229	61,061
Expenses				
Purchase of materials from a corporate shareholder and companies related to the shareholder	3,575	8,698	–	–
Services rendered from an associate	4	74	–	–
Services rendered from companies related to directors	22	–	9	134

34. Related party transactions (cont'd)

b) Compensation of key management personnel

	Group 2012 $'000	Group 2011 $'000
Directors' fees	110	110
Defined contribution plans	168	114
Other short-term employee benefits	6,024	7,905
Equity compensation expense	1,231	1,475
Total compensation paid to key management personnel	7,533	9,604
Comprise amounts paid to :		
Directors of the Company	1,959	3,862
Other key management personnel	5,574	5,742
	7,533	9,604

The remuneration of key management personnel are determined by the Remuneration Committee having regard to the performance of individuals and market trends.

<u>Directors' and key management personnel's interests in the Hi-P Employee Share Option Scheme</u>

During the year ended 31 December 2012, 1,256,071 (2011: 2,897,000) options were granted to the aforementioned executive directors. Nil (2011: 351,000) options were exercised by the executive directors during the year.

No share options have been granted to the Company's non-executive directors.

35. Financial risk management objectives and policies

The Group and the Company is exposed to financial risks arising from its operations and the use of financial instruments. The key financial risks include liquidity risk, foreign currency risk and credit risk. The board of directors reviews and agrees policies and procedures for the management of these risks. The audit committee provides independent oversight to the effectiveness of the risk management process.

It is, and has been throughout the current and previous financial year, the Group's policy that no derivatives shall be undertaken except for the use as hedging instruments where appropriate and cost-efficient. The Group and the Company do not apply hedge accounting.

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

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

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

a) *Liquidity risk*

Liquidity risk is the risk that the Group or the Company will encounter difficulty in meeting financial obligations due to shortage of funds. The Group's and the Company's objective is to maintain a balance between continuity of funding and flexibility through the use of standby-credit facilities.

The Group's and the Company's liquidity risk management policy is to manage liquidity risk on a group basis, to maintain sufficient liquid financial assets and stand-by credit facilities with several banks and take up short-term loans for short-term working capital requirements. At end of reporting period, the Group has sufficient standby credit facilities with several banks. At 31 December 2012, there were outstanding short term loans with a balance of USD115 million (2011: USD90 million).

The Group assessed the concentration of risk with respect to refinancing its debt and concluded it to be low. Access to sources of funding is sufficiently available and debt maturing within 12 months can be rolled over with existing lenders.

Analysis of financial instruments by remaining contractual maturities

The table below summarises the maturity profile of the Group's and the Company's financial assets and liabilities at the end of reporting period based on contractual undiscounted repayment obligations.

	2012				2011			
	1 year or less $'000	1 to 5 years $'000	Over 5 years $'000	Total $'000	1 year or less $'000	1 to 5 years $'000	Over 5 years $'000	Total $'000
Group								
Financial assets								
Trade and other receivables	328,469	–	–	328,469	293,318	–	–	293,318
Derivatives	1,401	–	–	1,401	984	–	–	984
Short term deposits pledged	11,491	–	–	11,491	75,651	–	–	75,651
Cash and cash equivalents	166,017	–	–	166,017	264,062	–	–	264,062
Total undiscounted financial assets	507,378	–	–	507,378	634,015	–	–	634,015

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

a) *Liquidity risk (cont'd)*

	2012				2011			
	1 year or less $'000	1 to 5 years $'000	Over 5 years $'000	Total $'000	1 year or less $'000	1 to 5 years $'000	Over 5 years $'000	Total $'000
Group (cont'd)								
Financial liabilities								
Trade and other payables	277,900	–	–	277,900	311,355	–	–	311,355
Accrued operating expenses	32,189	–	–	32,189	33,467	–	–	33,467
Derivatives	678	–	–	678	2,835	–	–	2,835
Loans and borrowings	142,480	2,390	–	144,870	116,967	3,147	131	120,245
Total undiscounted financial liabilities	453,247	2,390	–	455,637	464,624	3,147	131	467,902
Total net undiscounted financial assets/ (liabilities)	54,131	(2,390)	–	51,741	169,391	(3,147)	(131)	166,113

	2012				2011			
	1 year or less $'000	1 to 5 years $'000	Over 5 years $'000	Total $'000	1 year or less $'000	1 to 5 years $'000	Over 5 years $'000	Total $'000
Company								
Financial assets								
Trade and other receivables	48,617	–	89,047	137,664	140,283	–	60,649	200,932
Derivatives	1,190	–	–	1,190	692	–	–	692
Cash and cash equivalents	18,249	–	–	18,249	48,297	–	–	48,297
Total undiscounted financial assets	68,056	–	89,047	157,103	189,272	–	60,649	249,921

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

a) *Liquidity risk (cont'd)*

	2012				2011			
	1 year or less $'000	1 to 5 years $'000	Over 5 years $'000	Total $'000	1 year or less $'000	1 to 5 years $'000	Over 5 years $'000	Total $'000
Company (cont'd)								
Financial liabilities								
Trade and other payables	11,329	–	–	11,329	15,870	–	–	15,870
Accrued operating expenses	6,048	–	–	6,048	10,586	–	–	10,586
Derivatives	678	–	–	678	2,237	–	–	2,237
Loans and borrowings	80,262	–	–	80,262	116,181	–	–	116,181
Total undiscounted financial liabilities	98,317	–	–	98,317	144,874	–	–	144,874
Total net undiscounted financial assets/ (liabilities)	(30,261)	–	89,047	58,786	44,398	–	60,649	105,047

The table below shows the contractual expiry by maturity of the Company's contingent liabilities and commitments. The maximum amount of the financial guarantee contracts are allocated to the earliest period in which the guarantee could be called.

	2012				2011			
	1 year or less $'000	1 to 5 years $'000	Over 5 years $'000	Total $'000	1 year or less $'000	1 to 5 years $'000	Over 5 years $'000	Total $'000
Company								
Financial guarantees	56,932	–	–	56,932	101,637	–	–	101,637

b) *Foreign currency 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 SGD, Renminbi (RMB), Polish Zloty (PLN) and Thai Baht (THB). The foreign currencies in which these transactions are denominated are mainly United States Dollar (USD). Approximately 91% (2011: 93%) of the Group's sales and 60% (2011: 57%) of the Group's purchases are denominated in USD respectively. The Group's net transactional currency exposure for 2012 is approximately USD496 million (2011: USD575 million). As at end of reporting period, the Group's net USD receivables and payables are approximately USD83 million (2011: USD68 million). The USD weakened against RMB and weakened against SGD in second half of 2012.

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

b) *Foreign currency risk (cont'd)*

The Group and the Company also hold cash and short-term deposits denominated in foreign currencies for working capital purposes. At the end of the reporting period, such foreign currency balances are mainly in RMB and USD.

The Group manages its foreign exchange exposure risk by matching, as far as possible, receipts and payments in each individual currency. Foreign currency is converted into the relevant functional currency as and when management deems necessary. The unhedged exposure is reviewed and monitored closely on an ongoing basis and management will consider hedging any exposure where appropriate. The Group had approximately 49% of hedging in 2012 (2011: 49%) for its transactional currency arising from USD sales and purchases.

The Company has drawn-down USD115 million (2011: USD90 million) short term loans as at 31 December 2012 partly for hedging purpose.

Sensitivity analysis for foreign currency risk

The following table demonstrates the sensitivity of the Group's profit net of tax to a reasonably possible change in the USD exchange rates, with all other variables held constant.

	Group	
	Profit net of tax	
	2012	2011
	$'000	$'000
USD/ RMB – strengthened 0.3% (2011: 5.0%)	56	4,443
– weakened 0.3% (2011: 5.0%)	(56)	(4,443)
USD/ SGD – strengthened 5.0% (2011: 0.3%)	4,181	46
– weakened 5.0% (2011: 0.3%)	(4,181)	(46)

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 and the Company's exposure to credit risk arises primarily from trade and other receivables. For other financial assets (including cash and cash equivalents and short term deposits pledged and derivatives), the Group and the Company minimises credit risk by dealing exclusively with high credit rating counterparties.

The Group's objective is to seek continual revenue growth while minimizing losses incurred due to increased credit risk exposure. The Group trades only with recognized and creditworthy third parties with credit verification procedures. 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 (less than 0.01% of sales for 2012).

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

c) *Credit risk (cont'd)*

Excessive risk concentration

Concentrations arise when a number of counterparties are engaged in similar business activities, or activities in the same geographical region, or have economic features that would cause their ability to meet contractual obligations to be similarly affected by changes in economic, political or other conditions. Concentrations indicate the relative sensitivity of the group's performance to developments affecting a particular industry.

In order to avoid excessive concentrations of risk, the group's policies and procedures include specific guidelines to focus on maintaining a diversified portfolio. Identified concentrations of credit risks are controlled and managed accordingly.

Exposure to credit risk

At the end of reporting period, the Group's and the Company'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; and

At the end of reporting period, the Company's maximum exposure to credit risk is also represented by:

- a nominal amount of $12,524,000 (2011: $31,806,000) and $43,396,000 (2011: $68,263,000) relating to corporate guarantees by the Company in favour of third party suppliers for purchases made by the subsidiaries and in favour to banks for credit facilities provided to subsidiaries respectively; and

- a nominal amount of $1,012,000 (2011: $1,568,000) relating to bankers' guarantees utilised by certain subsidiaries in favour of third party suppliers for purchases made by subsidiaries.

Credit risk concentration profile

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

	Group			
	2012		2011	
	$'000	% of total	$'000	% of total
By country:				
Europe	17,926	6%	95,678	37%
USA and other parts of American Continent	103,116	35%	76,068	30%
People's Republic of China	140,592	48%	67,485	26%
Singapore	2,015	1%	155	0%
Malaysia	1,478	1%	3,077	1%
Other countries	26,548	9%	15,450	6%
	291,675	100%	257,913	100%

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

c) *Credit risk (cont'd)*

At the end of reporting period, approximately 75% (2011: 81%) of the Group's trade receivables were due from 3 (2011: 3) major customers who are multinational conglomerates.

Financial assets that are neither past due nor impaired

Trade and other receivables that are neither past due nor impaired are creditworthy debtors with good payment record with the Group. Cash and cash equivalents and short term deposits pledged and derivatives that are neither past due nor impaired are placed with or entered into with reputable financial institutions with high credit ratings and no history of default.

Financial assets that are either past due or impaired

Information regarding financial assets that are either past due or impaired is disclosed in Note 20.

36. Fair value of financial instruments

The fair value of a financial instrument is the amount at which the instrument could be exchanged or settled between knowledgeable and willing parties in an arm's length transaction, other than in a forced or liquidation sale.

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

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

	As at 31 December 2012 $'000			
Group	Quoted prices in active markets for identical instruments (Level 1)	Significant other observable inputs (Level 2)	Significant unobservable inputs (Level 3)	Total
Financial assets:				
Derivatives (Note 21)				
— Forward currency contracts	—	1,401	—	1,401
Financial liabilities:				
Derivatives (Note 21)				
— Forward currency contracts	—	(678)	—	(678)

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

a) *Fair value of financial instruments that are carried at fair value (cont'd)*

Company	As at 31 December 2012 $'000 Quoted prices in active markets for identical instruments (Level 1)	Significant other observable inputs (Level 2)	Significant unobservable inputs (Level 3)	Total
Financial assets:				
Derivatives (Note 21)				
— Forward currency contracts	—	1,190	—	1,190
Financial liabilities:				
Derivatives (Note 21)				
— Forward currency contracts	—	(678)	—	(678)

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 or liabilities
- 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), and
- Level 3 – Inputs for the asset or liability that are not based on observable market data (unobservable inputs)

The Group does not have financial instruments carried at Level 1 and 3 of the fair value hierarchy.

Determination of fair value

Derivatives (Note 21): Forward currency contracts are valued using a valuation technique with market observable inputs. The most frequently applied valuation techniques include forward pricing and swap models, using present value calculations. The models incorporate various inputs including the credit quality of counterparties as well as foreign exchange spot and forward rates.

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

Management has determined that the carrying amounts of cash and cash equivalents and short term deposits pledged, current trade and other receivables, USD loans to subsidiaries, current trade and other payables, accrued operating expenses, current obligation of finance lease and short term loans, based on their notional amounts, reasonably approximate their fair values because these are mostly short term in nature.

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

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

The fair value of financial assets and liabilities by classes that are not carried at fair value and whose carrying amounts are not a reasonable approximation of fair value as at 31 December are as follows:

	Group				Company			
	Carrying amount		Fair value		Carrying amount		Fair value	
	2012 $'000	2011 $'000	2012 $'000	2011 $'000	2012 $'000	2011 $'000	2012 $'000	2011 $'000
Financial assets:								
Amount due from a subsidiary (Note 16)	–	–	–	–	25,556	25,556	*	*
Financial liabilities:								
Obligations of finance lease (non-current) (Note 26)	2,073	2,725	1,941	2,454	–	–	–	–

* *Amount due from a subsidiary (Note 16)*

Fair value information has not been disclosed for amount due from a subsidiary that are carried at cost because fair value of this amount is not determinable as the timing of the future cash flow arising from this amount cannot be measured reliably. The Company does not foresee this amount being repaid in the foreseeable future.

Determination of fair value

Fair value has been determined using discounted estimated cash flows. Where repayment terms are not fixed, future cash flows are projected based on management's best estimates. The discount rates used are the current market incremental lending rates for similar types of lending, borrowing and leasing arrangements.

37. Capital management

Capital includes debt and equity items as disclosed in the table below.

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 adjustment to it in light of changes in economic conditions. To manage the capital structure, the Group may adjust the dividend payment to shareholders, return capital to shareholders, repurchase shares or issue new shares. For the year ended 31 December 2012, the Group has declared a final dividend payment of $9.9 million to shareholders (as disclosed in Note 31).

37. Capital management (cont'd)

As disclosed in Note 29(a), some subsidiaries of the Group are required by the Foreign Enterprise Law of the PRC to contribute to and maintain a non-distributable statutory reserve fund whose utilisation is subject to approval by the relevant PRC authorities. This externally imposed capital requirement has been complied with by the above-mentioned subsidiaries for the financial years ended 31 December 2012 and 2011.

The Group monitors capital using a gearing ratio which is total loans and borrowings less cash and cash equivalents divided by total capital. Total capital includes equity attributable to owners of the Company less the above-mentioned restricted statutory reserve fund.

As the Group is at net cash position at the end of the year, disclosure of gearing ratio is hence not meaningful.

	Group	
	2012	**2011**
	$'000	**$'000**
Cash and cash equivalents (Note 23)	166,017	264,062
Less: Loans and borrowings (Note 26)	(144,301)	(119,417)
Net cash	21,716	144,645
Equity attributable to owners of Company	578,827	595,733
Less: Statutory reserve fund (Note 29(a))	(48,967)	(48,202)
Total capital	529,860	547,531

38. Segment information

For management purposes, the Group is organised into manufacturing plants based on their products and services, and has 3 reportable operating segments as follows:

i. Precision plastic injection molding ("PPIM")
ii. Mold design and fabrication ("MDF")
iii. Provision of sub-product assembly and full-product assembly services ("Assembly")

Except as indicated above, no operating segments have been aggregated to form the above reportable operating segments.

Management monitors the operating results of its manufacturing plants separately for the purpose of making decisions about resource allocation and performance assessment. Segment performance is evaluated based on operating profit or loss which in certain respects, as explained in the table below, is measured differently from operating profit or loss in the consolidated financial statements. Group financing (including finance costs) and income taxes are managed on a group basis and are not allocated to operating segments.

38. Segment information (cont'd)

Transfer prices between operating segments are on an arm's length basis in a manner similar to transactions with third parties.

2012	PPIM $'000	MDF $'000	Assembly $'000	Eliminations $'000	Notes	Consolidated $'000
Revenue:						
Sales to external customers	559,942	44,163	562,636	–		1,166,741
Inter-segment sales	70,685	53,057	–	(123,742)	A	–
	630,627	97,220	562,636	(123,742)		1,166,741
Results:						
Profit from operations	3,701	1	8,318	–		12,020
Interest income						6,789
Other income						13,306
Financial costs						(3,953)
Other expenses						(5,935)
Share of results of associates						325
Profit before tax						22,552
Income tax expense						(4,599)
Profit, net of tax						17,953
Other information						
Depreciation of property, plant and equipment	60,287	6,922	2,540	–		69,749
Other non-cash expenses	3,038	1	6,827	–	B	9,866

38. Segment information (cont'd)

2011	PPIM $'000	MDF $'000	Assembly $'000	Eliminations $'000	Notes	Consolidated $'000
Revenue:						
Sales to external customers	439,003	39,002	725,904	–		1,203,909
Inter-segment sales	56,742	–	–	(56,742)	A	–
	495,745	39,002	725,904	(56,742)		1,203,909
Results:						
Profit from operations	34,468	9	17,110	–		51,587
Interest income						4,889
Other income						13,945
Financial costs						(1,465)
Other expenses						(9,599)
Share of results of associates						31
Profit before tax						59,388
Income tax expense						(14,428)
Profit, net of tax						44,960
Other information						
Depreciation of property, plant and equipment	32,891	6,866	19,730	–		59,487
Other non-cash expenses	6,828	2	3,389	–	B	10,219

Notes Nature of adjustments and eliminations to arrive at amounts reported in the consolidated financial statements

A Inter-segment revenues are eliminated on consolidation.

B Other non-cash expenses consist of impairment of property, plant and equipment, doubtful receivables, inventory obsolescence, equity compensation expenses, net loss on disposal of property, plant and equipment, net loss on disposal of investment in a subsidiary and gain on disposal of investment in an associate as presented in the respective notes to the financial statements.

38. Segment information (cont'd)

Geographical information

Revenue and non-current assets information based on the geographical location of customers and assets respectively are as follows:

	Revenue		Non-current assets	
	2012	2011	2012	2011
	$'000	$'000	$'000	$'000
Asia				
People's Republic of China	337,882	200,168	337,399	251,115
Singapore	6,832	3,026	18,808	20,650
Malaysia	7,704	12,602	–	–
Taiwan	101,051	69,252	–	–
Others	54,576	37,729	1,861	2,159
	508,045	322,777	358,068	273,924
Europe	151,809	445,622	7,196	8,519
United States and the rest of Americas	506,887	435,510	13	1,949
	1,166,741	1,203,909	365,277	284,392

Non-current assets information presented above consist of property, plant and equipment and land use rights.

Information about major customers

The Group has 3 major customers for PPIM segment with revenue amounting to $414,460,000 (2011: $302,067,000) and 2 major customers for Assembly segment with revenue amounting to $309,974,000 (2011: $603,028,000).

39. Events occurring after the reporting period

On 19 February 2013, a fire incident occurred at one of the buildings in a manufacturing plant of the Company's wholly-owned subsidiary, Hi-P (Shanghai) Stamping Mold & Component Industries Co., Ltd. Renovation, machineries and inventories with estimated net carrying value of approximately $4,797,000 were severely damaged by fire. The Company had insured the damaged renovation, machineries and inventories. The building was leased from a third party and the Company understands that the building had been insured by the lessor. The financial statements for the year ended 31 December 2012 have not been adjusted for the financial effect of this incident.

40. 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 3 April 2013.

STATISTICS OF SHAREHOLDINGS

As at 18 March 2013

DISTRIBUTION OF SHAREHOLDERS BY SIZE OF SHAREHOLDINGS

Size of Shareholdings	No. of Shareholders	% of Shareholders	No. of Shares	% of Shareholdings
1 - 999	8	0.35	771	0.00
1,000 - 10,000	1,385	60.75	8,442,038	1.02
10,001 - 1,000,000	869	38.11	43,068,804	5.22
1,000,001 - and above	18	0.79	774,189,887	93.76
Grand Total	2,280	100.00	825,701,500	100.00

TWENTY LARGEST SHAREHOLDERS AS AT 18 MARCH 2013

No.	Name of Shareholder	No. of Shares	% of Shareholdings[1]
1	YAO HSIAO TUNG	492,520,480*	59.65
2	MOLEX INTERNATIONAL INC	178,236,020	21.59
3	DBS NOMINEES PTE LTD	25,804,200	3.13
4	RAFFLES NOMINEES (PTE) LTD	22,288,675	2.70
5	CITIBANK NOMINEES SINGAPORE PTE LTD	18,062,700	2.19
6	UNITED OVERSEAS BANK NOMINEES PTE LTD	8,272,700	1.00
7	DBSN SERVICES PTE LTD	7,721,143	0.94
8	BNP PARIBAS SECURITIES SERVICES	3,998,000	0.48
9	HSBC (SINGAPORE) NOMINEES PTE LTD	3,725,960	0.45
10	RODERICK SER PHUAY KEE	2,543,000	0.31
11	CHESTER LIN CHIEN	2,000,000#	0.24
12	ONG ENG LOKE	1,445,000	0.18
13	PHILLIP SECURITIES PTE LTD	1,416,000	0.17
14	WONG HUEY FANG	1,351,000^	0.16
15	SZETO TZEN	1,282,000	0.16
16	UOB KAY HIAN PTE LTD	1,274,000	0.15
17	OCBC SECURITIES PRIVATE LTD	1,189,009	0.14
18	ESTATE OF KUEK SER BENG, DECEASED	1,060,000	0.13
19	MAYBANK KIM ENG SECURITIES PTE LTD	796,795	0.10
20	OCBC NOMINEES SINGAPORE PTE LTD	751,000	0.09
	TOTAL	**775,737,682**	**93.96**

Note:

1 Based on 825,701,500 shares (excluding shares held as treasury shares) as at 18 March 2013.
* Mr Yao Hsiao Tung's shares are held (1) 489,520,480 under CDP direct account (2) 3,000,000 under Raffles Nominees (Pte) Ltd.
# Mr Chester Lin Chien held 2,000,000 shares under Raffles Nominees (Pte) Ltd.
^ Mdm Wong Huey Fang's shares are held (1) 351,000 under CDP direct account (2) 1,000,000 under Raffles Nominees (Pte) Ltd.

SHAREHOLDERS' INFORMATION

No. of issued shares (excluding treasury shares)	:	825,701,500
No. and percentage of treasury shares	:	61,473,500 (7.45%)
Class of shares	:	Ordinary share fully paid
Voting rights (excluding treasury shares)	:	One vote per ordinary share

SUBSTANTIAL SHAREHOLDERS

Substantial shareholders of the Company (as recorded in the Register of Substantial Shareholders) as at 18 March 2013.

	Direct Interest	%[4]	Deemed Interest	%[4]
Yao Hsiao Tung (Note 1)	492,520,480	59.65	–	–
Wong Huey Fang (Note 2)	1,351,000	0.16	–	–
Molex International Inc	178,236,020	21.59	–	–
Molex Incorporated (Note 3)	–	–	178,236,020	21.59

Notes:

1. Mr Yao Hsiao Tung's shares are held:
   (1) 489,520,480 under CDP direct account (2) 3,000,000 under Raffles Nominees (Pte) Ltd.
   Mr Yao Hsiao Tung is the husband of Mdm Wong Huey Fang. As both Mr Yao Hsiao Tung and Mdm Wong Huey Fang are Directors, by virtue of Section 164(15)(a) of the Companies Act, they are not deemed to be interested in the Shares held by the other.
2. Mdm Wong Huey Fang's shares are held:
   (1) 351,000 under CDP direct account (2) 1,000,000 under Raffles Nominees (Pte) Ltd.
3. Molex International Inc is a subsidiary of Molex Incorporated. As such, Molex Incorporated is deemed to have an interest in the 178,236,020 shares held by Molex International Inc.
4. Percentage shareholding is based on the Company's total issued shares of 825,701,500 shares as at 18 March 2013 (excluding treasury shares).

Free Float

As at 18 March 2013, approximately 18.27% of the total issued shares (excluding treasury shares) of the Company was held in the hands of the public (based on information available to the Company).

Accordingly, the Company has complied with Rule 723 of the Listing Manual.

Treasury Shares

As at 18 March 2013, the Company held 61,473,500 treasury shares, representing 7.45% of the total issued shares excluding treasury shares.

NOTICE OF ANNUAL GENERAL MEETING

NOTICE IS HEREBY GIVEN that the Annual General Meeting of Hi-P International Limited (the "Company") will be held at Albizia Room, Level 2, Jurong Country Club, 9 Science Centre Road, Singapore 609078 on Monday, 29 April 2013 at 2.30 p.m. for the following purposes:

ORDINARY BUSINESS

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

2. To declare a first and final tax exempt one-tier dividend of 1.2 cents per ordinary share for the year ended 31 December 2012. [2011: 2.4 cents per ordinary share] **(Resolution 2)**

3. To re-elect Mr Yeo Tiong Eng retiring pursuant to Article 91 of the Company's Articles of Association. **(Resolution 3)**

   Mr Yeo Tiong Eng will, upon re-election as a director of the Company, remain as a member of Audit Committee and Nominating Committee.

4. To re-elect Mr Gerald Lim Thien Su retiring pursuant to Article 91 of the Company's Articles of Association. **(Resolution 4)**

   Mr Gerald Lim Thien Su will, upon re-election as a director of the Company, remain as the Chairman of the Audit Committee and a member of Remuneration Committee and will be considered independent for the purposes of Rule 704(8) of the Listing Manual of the Singapore Exchange Securities Trading Limited.

5. To pass the following Ordinary Resolutions pursuant to Section 153(6) of the Companies Act, Cap. 50:-

   "That pursuant to Section 153(6) of the Companies Act, Cap. 50, Mr Yao Hsiao Tung be re-appointed a Director of the Company to hold office until the next Annual General Meeting."
   [See Explanatory Note (i)] **(Resolution 5)**

   "That pursuant to Section 153(6) of the Companies Act, Cap. 50, Mr Chester Lin Chien be re-appointed a Director of the Company to hold office until the next Annual General Meeting."
   [See Explanatory Note (ii)] **(Resolution 6)**

6. To approve the payment of Directors' fees of S$358,000.00 for the year ended 31 December 2012. (2011: S$373,616.43) **(Resolution 7)**

7. To re-appoint Messrs Ernst & Young LLP as the Company's Auditor and to authorise the Directors to fix their remuneration. **(Resolution 8)**

8. To transact any other ordinary business which may properly be transacted at an Annual General Meeting.

SPECIAL BUSINESS

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

9. Authority to allot and issue shares up to fifty per cent. (50%) of the total number of issued shares excluding treasury shares

"That, pursuant to Section 161 of the Companies Act, Cap. 50 and Rule 806(2) of the Listing Manual of the Singapore Exchange Securities Trading Limited (the "Listing Manual"), authority be and is hereby given to the Directors to:-

(a) allot and issue shares in the Company; and

(b) issue convertible securities and any shares in the Company pursuant to convertible securities

(whether by way of rights, bonus or otherwise) at any time and upon such terms and conditions and for such purposes and to such persons as the Directors shall in their absolute discretion deem fit, provided that the aggregate number of shares (including any shares to be issued pursuant to the convertible securities) in the Company to be issued pursuant to such authority shall not exceed fifty per cent. (50%) of the total number of issued shares excluding treasury shares, of which the aggregate number of shares and convertible securities issued other than on a pro-rata basis to the existing shareholders of the Company shall not exceed twenty per cent. (20%) of the total number of issued shares excluding treasury shares. Unless revoked or varied by the Company in general meeting, such authority shall continue in full force until the conclusion of the next Annual General Meeting of the Company or the date by which the next Annual General Meeting is required by law to be held, whichever is earlier, except that the Directors shall be authorised to allot and issue new shares pursuant to the convertible securities notwithstanding that such authority has ceased.

For the purposes of this Resolution and Rule 806(3) of the Listing Manual, the total number of issued shares excluding treasury shares is based on the Company's total number of issued shares excluding treasury shares at the time this Resolution is passed after adjusting for:-

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

(ii) new shares arising from exercising share options or vesting of share awards outstanding or subsisting at the time of the passing of this Resolution, provided the options or awards were granted in compliance with the rules of the Listing Manual; and

(iii) any subsequent bonus issue, consolidation or subdivision of shares."
[See Explanatory Note (iii)] **(Resolution 9)**

10. Authority to grant options and issue shares under the Hi-P Employee Share Option Scheme

"That, pursuant to Section 161 of the Companies Act, Cap. 50, the Directors of the Company be and are hereby authorised to offer and grant options in accordance with the Hi-P Employee Share Option Scheme (the "Option Scheme") and to allot and issue such shares as may be required to be issued pursuant to the exercise of the options granted under the Option Scheme provided always that the aggregate number of shares to be issued pursuant to the Option Scheme, together with the aggregate number of shares to be issued pursuant to the Hi-P Employee Share Award Scheme, shall not exceed fifteen per cent. (15%) of the total number of issued shares excluding treasury shares of the Company from time to time."
[See Explanatory Note (iv)] **(Resolution 10)**

11. Authority to grant awards and issue shares under the Hi-P Employee Share Award Scheme

"That, pursuant to Section 161 of the Companies Act, Cap. 50, the Directors of the Company be and are hereby authorised to offer and grant awards in accordance with the Hi-P Employee Share Award Scheme (the "Award Scheme") and to allot and issue such number of fully paid shares as may be required to be issued pursuant to the vesting of the awards under the Award Scheme provided always that the aggregate number of shares to be issued pursuant to the Award Scheme, together with the aggregate number of shares to be issued pursuant to the Hi-P Employee Share Option Scheme, shall not exceed fifteen per cent. (15%) of the total number of issued shares excluding treasury shares of the Company from time to time."
[See Explanatory Note (v)] **(Resolution 11)**

By Order of the Board

Yao Hsiao Tung
Executive Chairman and Chief Executive Officer

Singapore, 12 April 2013

EXPLANATORY NOTES:

(i) If re-appointed under Resolution 5, Mr Yao Hsiao Tung who is over the age of 70, will continue in office as Executive Chairman of the Board of Directors of the Company until the next Annual General Meeting.

(ii) If re-appointed under Resolution 6, Mr Chester Lin Chien who is over the age of 70, will continue in office as Independent Director of the Board of Directors of the Company until the next Annual General Meeting.

(iii) The Ordinary Resolution 9 proposed in item 9 above, if passed, will empower the Directors from the date of the above Meeting until the date of the next Annual General Meeting, to allot and issue shares and convertible securities in the Company. The aggregate number of shares (including any shares issued pursuant to the convertible securities) which the Directors may allot and issue under this Resolution will not exceed fifty per cent. (50%) of the total number of issued shares excluding treasury shares (as defined in Resolution 9) of the Company. For issues of shares and convertible securities other than on a pro-rata basis to all shareholders, the aggregate number of shares to be issued shall not exceed twenty per cent. (20%) of the total number of issued shares excluding treasury shares (as defined in Resolution 9) of the Company. This authority will, unless previously revoked or varied at a general meeting, expire at 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. However, notwithstanding the cessation of this authority, the Directors are empowered to issue shares pursuant to any convertible securities issued under this authority.

(iv) The Ordinary Resolution 10 proposed in item 10 above, if passed, will empower the Directors of the Company, to grant options and to allot and issue shares pursuant to the exercise of the options under the Hi-P Employee Share Option Scheme, together with the allotment and issue of shares pursuant to the Hi-P Employee Share Award Scheme, of up to a number not exceeding in total fifteen per cent. (15%) of the total number of issued shares excluding treasury shares of the Company from time to time.

(v) The Ordinary Resolution 11 proposed in item 11 above, if passed, will empower the Directors of the Company, to grant awards and to allot and issue shares pursuant to the vesting of awards under the Hi-P Employee Share Award Scheme, together with the allotment and issue of shares pursuant to the Hi-P Employee Share Option Scheme, of up to a number not exceeding in total fifteen per cent. (15%) of the total number of issued shares excluding treasury shares of the Company from time to time.

Notes:

1. A member entitled to attend and vote at the Meeting is entitled to appoint not more than two proxies to attend and vote instead of him. A proxy need not be a member of the Company.

2. If the appointor is a corporation, the proxy must be executed under seal or the hand of its duly authorised officer or attorney.

3. The instrument appointing a proxy must be deposited at the registered office of the Company at 11 International Business Park, Singapore 609926 not less than forty-eight (48) hours before the time for holding the Meeting.

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HI-P INTERNATIONAL LIMITED

Company Registration Number 198004817H
(Incorporated in the Republic of Singapore)

PROXY FORM

IMPORTANT

1. For investors who have used their CPF monies to buy Hi-P International Limited shares, the Annual Report is forwarded to them at the request of their CPF Approved Nominees and is sent 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.

I/We ____ (Name)

______________________ (NRIC/ Passport Number) of ______________________

____ (Address) being a

member/members of HI-P INTERNATIONAL LIMITED (the "Company") hereby appoint:

Name	Address	NRIC/Passport Number	Proportion of Shareholdings (%)

and/or (delete as appropriate)

Name	Address	NRIC/Passport Number	Proportion of Shareholdings (%)

as my/our proxy/proxies to vote for me/us on my/our behalf, at the Annual General Meeting of the Company (the "Meeting") to be held at Albizia Room, Level 2, Jurong Country Club, 9 Science Centre Road, Singapore 609078 on Monday, 29 April 2013 at 2.30 p.m. and at any adjournment thereof. I/We direct my/our proxy/proxies to vote for or against the Resolutions to be proposed at the Meeting as indicated hereunder. If no specific direction as to voting is given, the proxy/proxies will vote or abstain from voting at his/their discretion, as he/they will on any matter arising at the Meeting.

No.	Resolutions Relating to:	For	Against
1.	Directors' Report and Accounts for the year ended 31 December 2012		
2.	Payment of first and final dividend		
3.	Re-election of Mr Yeo Tiong Eng		
4.	Re-election of Mr Gerald Lim Thien Su		
5.	Re-appointment of Mr Yao Hsiao Tung		
6.	Re-appointment of Mr Chester Lin Chien		
7.	Approval of Directors' fees for the year ended 31 December 2012		
8.	Re-appointment of Messrs Ernst & Young LLP as Auditor		
9.	Authority to issue and allot shares pursuant to Section 161 of the Companies Act, Cap. 50		
10.	Authority to grant options and issue shares under the Hi-P Employee Share Option Scheme		
11.	Authority to grant awards and issue shares under the Hi-P Employee Share Award Scheme		

Dated this __________ day of ____________ 2013

Total No. of Shares	No. of Shares
In CDP Register	
In Register of Members	

____

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

IMPORTANT: PLEASE READ NOTES OVERLEAF

NOTES

1. A member entitled to attend and vote at the Meeting is entitled to appoint not more than two proxies to attend and vote in his stead.

2. Where a member appoints more than one proxy, the appointments shall be invalid unless he specifies the proportion of his holding (expressed as a percentage of the whole) to be represented by each proxy.

3. A proxy need not be a member of the Company.

4. A member should insert the total number of shares held. If the member has shares entered against his name in the Depository Register (as defined in Section 130A of the Companies Act, Cap. 50 of Singapore), he should insert that number of shares. If the member has shares registered in his name in the Register of Members of the Company, he should insert that number of shares. If the member has shares entered against his name in the Depository Register and registered in his name in the Register of Members, he should insert the aggregate number of shares. If no number is inserted, this form of proxy will be deemed to relate to all shares held by the member.

5. The instrument appointing a proxy or proxies must be deposited at the Company's registered office at 11 International Business Park, Singapore 609926, not less than 48 hours before the time set 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 common seal or under the hand of its attorney or a duly authorised officer.

7. Where an instrument appointing a proxy is signed on behalf of the appointor by an attorney, the letter or power of attorney or a duly certified copy thereof must (failing previous registration with the Company) be lodged with the instrument of proxy, failing which the instrument may be treated as invalid.

GENERAL:

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

Hi-P INTERNATIONAL LIMITED
赫 比 国 际 有 限 公 司
Company Registration Number 198004817H

11 International Business Park, Jurong East, Singapore 609926
www.hi-p.com

cre8 Tel: (65) 63278398