



SERIAL SYSTEM LTD

Company Registration No.: 199202071D
(Incorporated in Singapore on 22 April 1992)

Unaudited Second Quarter and Half Year Financial Statement and Dividend Announcement for the Period Ended 30 June 2014

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

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

	Note	The Group Second Quarter			The Group Year-To-Date		
		2Q2014 US\$'000	2Q2013 US\$'000		30/06/2014 US\$'000	30/06/2013 US\$'000	
Sales		262,924	206,035	28%	475,284	377,608	26%
Cost of sales		(240,342)	(187,077)	28%	(433,657)	(343,006)	26%
Gross profit		22,582	18,958	19%	41,627	34,602	20%
Gross profit margin		8.6%	9.2%	-0.6 pt	8.8%	9.2%	-0.4 pt
Other operating income		2,231	2,068	8%	3,474	2,809	24%
Expenses:							
Distribution		(10,649)	(8,826)	21%	(20,539)	(16,795)	22%
Administrative		(2,503)	(2,478)	1%	(5,263)	(4,634)	14%
Finance		(1,097)	(740)	48%	(2,045)	(1,428)	43%
Other		(4,364)	(4,361)	0.1%	(7,956)	(7,642)	4%
Total expenses		(18,613)	(16,405)	13%	(35,803)	(30,499)	17%
		6,200	4,621	34%	9,298	6,912	35%
Share of results of associated companies (after income tax)		114	26	338%	24	(124)	119%
Profit before income tax	1	6,314	4,647	36%	9,322	6,788	37%
Income tax expense	2	(1,257)	(849)	48%	(2,205)	(1,393)	58%
Profit after income tax		5,057	3,798	33%	7,117	5,395	32%
Attributable to:							
Equity holders of the Company		5,011	3,672	36%	7,121	5,280	35%
Non-controlling interests		46	126	-63%	(4)	115	-103%
		5,057	3,798	33%	7,117	5,395	32%

1. Profit before income tax

NM – Not Meaningful

1(a)(ii) A statement of comprehensive income for the Group together with a comparative statement for the corresponding period of the immediately preceding financial year

	The Group			The Group		
	Second Quarter			Year-To-Date		
	2Q2014	2Q2013		30/06/2014	30/06/2013	
	US\$'000	US\$'000		US\$'000	US\$'000	
Profit after income tax	5,057	3,798	33%	7,117	5,395	32%
Other comprehensive income/(loss) for the period:						
Items that may be reclassified subsequently to profit or loss:						
Net gain/(loss) on fair value changes on financial asset, available-for-sale	1,657	(485)	442%	894	(485)	284%
Currency translation differences	988	(929)	206%	(112)	(1,741)	94%
Other comprehensive income/(loss) for the period	2,645	(1,414)	287%	782	(2,226)	135%
Total comprehensive income for the period	7,702	2,384	223%	7,899	3,169	149%
Total comprehensive income/(loss) attributable to:						
Equity holders of the Company	7,538	2,289	229%	8,001	3,091	159%
Non-controlling interests	164	95	73%	(102)	78	-231%
	7,702	2,384	223%	7,899	3,169	149%

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

	The Group		The Company	
	30/6/2014	31/12/2013	30/6/2014	31/12/2013
	US\$'000	US\$'000	US\$'000	US\$'000
ASSETS				
Current assets				
Cash and cash equivalents	49,187	40,548	2,286	1,026
Trade and other receivables	205,847	165,909	13,018	16,370
Inventories	83,796	67,925	-	-
Financial assets, at fair value through profit or loss	58	61	-	-
Other current assets	2,475	2,601	879	116
	341,363	277,044	16,183	17,512
Non-current assets				
Financial assets, at fair value through profit or loss	1,317	1,297	-	-
Loans and receivables	-	-	40,431	41,757
Financial assets, available-for-sale	1,244	5,182	-	-
Investments in associated companies	13,002	6,097	6,626	6,626
Investments in subsidiaries	-	-	52,883	52,883
Property, plant and equipment	34,826	36,009	390	346
Investment properties	7,284	6,392	-	-
Intangible assets	7,890	9,066	541	588
Other assets	2,152	1,834	-	-
Deferred income tax assets	560	555	-	-
	68,275	66,432	100,871	102,200
Total Assets	409,638	343,476	117,054	119,712

	The Group		The Company	
	30/6/2014	31/12/2013	30/6/2014	31/12/2013
	US\$'000	US\$'000	US\$'000	US\$'000
LIABILITIES				
Current liabilities				
Trade and other payables	104,895	92,473	3,128	3,088
Current income tax liabilities	2,414	1,478	-	78
Redemption liabilities	17	410	-	-
Borrowings	178,818	124,298	8,693	2,964
	286,144	218,659	11,821	6,130
Non-current liabilities				
Other payable	-	-	4,795	4,683
Borrowings	6,646	14,115	-	7,079
Defined benefit plans liabilities	834	651	-	-
Deferred income tax liabilities	133	89	-	-
	7,613	14,855	4,795	11,762
Total Liabilities	293,757	233,514	16,616	17,892
Net Assets	115,881	109,962	100,438	101,820
EQUITY				
Capital and reserves attributable to the Company's equity holders				
Share capital	72,648	72,648	72,648	72,648
Treasury shares	(736)	(736)	(736)	(736)
Capital reserve	180	180	180	180
Defined benefit plans reserve	(424)	(424)	-	-
Fair value reserve	-	(894)	-	-
Other reserve	(17)	(410)	-	-
Currency translation reserve	6,010	6,025	17,589	17,589
Retained earnings	36,033	31,051	10,757	12,139
	113,694	107,440	100,438	101,820
Non-controlling interests	2,187	2,522	-	-
Total Equity	115,881	109,962	100,438	101,820

1(b)(ii) Aggregate amount of group's borrowings and debt securities.

Amount repayable in one year or less, or on demand

As at 30 June 2014		As at 31 December 2013	
<u>Secured</u>	<u>Unsecured</u>	<u>Secured</u>	<u>Unsecured</u>
US\$'000	US\$'000	US\$'000	US\$'000
9,775	169,043	4,003	120,295

Amount repayable after one year

As at 30 June 2014		As at 31 December 2013	
<u>Secured</u>	<u>Unsecured</u>	<u>Secured</u>	<u>Unsecured</u>
US\$'000	US\$'000	US\$'000	US\$'000
6,646	-	14,115	-

Details of any collateral

- a) A US\$16.0 million (S\$20 million) four years term loan amounting to US\$8.7 million (31 December 2013: US\$10.0 million) taken up by the Company with a bank is secured with the following:
 - a first legal mortgage of the leasehold land and building ('Mortgaged Property') held by a wholly owned Singapore subsidiary, Serial Investment Pte Ltd;
 - an assignment of all rights and benefits relating to the Mortgaged Property;
 - an assignment of all rights, title interest and benefits in tenancy agreements, relating to the Mortgaged Property;
 - an assignment of all rights and benefits under the insurance policies taken in relation to the Mortgaged Property; and
 - joint and several guarantees of certain subsidiaries of the Group.
- b) Bank borrowing of US\$4.5 million (31 December 2013: US\$4.7 million) taken by a wholly owned Taiwan subsidiary, Serial Investment (Taiwan) Inc. to part finance the acquisition of a property in Taiwan is secured by a first legal mortgage of the property.
- c) Bank borrowing of US\$3.2 million (31 December 2013: US\$3.4 million) taken by a 98.2% Korean subsidiary, Serial Microelectronics Korea Limited to part finance the acquisition of a property in South Korea is secured by a first legal mortgage of the property.
- d) Finance lease liabilities of US\$0.1 million (31 December 2013: US\$0.05 million) are secured on the Company and Group's motor vehicles acquired under finance lease agreements.

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

	Second Quarter		Year-To-Date	
	2Q2014	2Q2013	30/6/2014	30/6/2013
	US\$'000	US\$'000	US\$'000	US\$'000
Cash flows from operating activities				
Profit before income tax	6,314	4,647	9,322	6,788
Adjustments for:				
Amortisation of computer software license costs	63	50	128	99
Amortisation of distribution rights	431	529	861	1,184
Depreciation of property, plant and equipment	663	585	1,330	1,105
Property, plant and equipment written off	70	-	70	-
Gain on disposal of property, plant and equipment	-	-	(1)	-
Gain on sale of an investment property	-	(822)	-	(822)
Impairment losses on goodwill arising from acquisition of subsidiaries	180	215	360	431
Gain on dilution of interests in an associated company	(12)	-	(19)	-
Gain on sale of financial assets, available-for-sale	(1,381)	-	(1,381)	-
Loss on sale of financial assets, at fair value through profit or loss	-	-	-	17
Fair value gain/(loss) on financial assets, at fair value through profit or loss	8	21	4	(72)
Provision for severance benefits	115	100	208	192
Reversal of employee share option reserve to income statement	-	(5)	-	(5)
Dividend income received from financial assets, available-for-sale	(108)	-	(108)	-
Interest income	(51)	(72)	(77)	(100)
Interest expense	1,097	740	2,045	1,428
Share of results of associated companies	(114)	(26)	(24)	124
Operating cash flow before working capital changes	7,275	5,962	12,718	10,369
Change in operating assets and liabilities, net of effects from investment in a subsidiary & acquisition of associated companies				
Trade and other receivables	(21,014)	(20,995)	(40,245)	(33,456)
Inventories	(15,704)	475	(15,871)	(1,399)
Other current assets	187	426	521	(177)
Other assets (non-current)	(5)	-	(319)	-
Trade and other payables	1,684	10,263	12,270	28,598
Cash (used in)/from operations	(27,577)	(3,869)	(30,926)	3,935
Income tax paid	(187)	(362)	(1,628)	(1,525)
Net cash (used in)/provided by operating activities	(27,764)	(4,231)	(32,554)	2,410

	Second Quarter		Year-To-Date	
	2Q2014	2Q2013	30/6/2014	30/6/2013
	US\$'000	US\$'000	US\$'000	US\$'000
Cash flows from investing activities				
Payments for intangible assets (computer software license costs)	(71)	(7)	(123)	(60)
Payments for property, plant and equipment	(487)	(8,009)	(799)	(8,773)
Proceeds from sale of an investment property	-	3,480	-	3,480
Proceeds from disposal of property, plant and equipment	-	-	15	-
Proceeds from sale of financial assets, available-for-sale	6,142	-	6,142	-
Proceeds from sale of financial assets, at fair value through profit or loss	-	-	-	236
Payment for acquisition of additional interests in a subsidiary from non-controlling interest	-	(296)	-	(296)
Payments for acquisition of associated companies	(6,826)	-	(6,826)	-
Payments for financial assets, at fair value through profit or loss	-	(60)	-	(60)
Payments for financial assets, available-for-sale	-	(3,705)	-	(3,826)
Payments for acquisition of a subsidiary, net of cash acquired	-	(1,827)	-	(1,827)
Dividends received from an associated company	71	-	71	-
Dividend received from financial assets, available-for-sale	108	-	108	-
Interest received	49	168	71	191
Net cash used in investing activities	(1,014)	(10,256)	(1,341)	(10,935)
Cash flows from financing activities				
Proceeds from issue of ordinary shares	-	5	-	22
Payment for investment in a subsidiary by non-controlling interests	-	-	32	-
Dividends paid	(2,139)	(2,178)	(2,139)	(2,178)
Dividend paid to non-controlling interest	(265)	(132)	(265)	(132)
Proceeds from bank borrowings	184,092	133,084	327,412	227,141
Repayment of bank borrowings	(150,735)	(114,372)	(280,816)	(208,423)
Repayment of finance lease liabilities	(14)	(13)	(28)	(44)
Interest paid	(1,021)	(706)	(1,927)	(1,400)
Net cash provided by financing activities	29,918	15,688	42,269	14,986
Net increase in cash and cash equivalents held	1,140	1,201	8,374	6,461
Cash and cash equivalents at the beginning of the period	47,560	42,222	40,548	37,180
Effect of currency rate changes on cash and cash equivalents	487	(88)	265	(306)
Cash and cash equivalents at the end of the period	49,187	43,335	49,187	43,335

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

Consolidated Statement of Changes in Equity

	← Attributable to equity holders of the Company →										
	Share capital US\$'000	Treasury shares US\$'000	Capital reserve US\$'000	Defined benefit plans reserve US\$'000	Fair value reserve US\$'000	Other reserve US\$'000	Currency translation reserve US\$'000	Retained earnings US\$'000	Total attributable to equity holders of the Company US\$'000	Non-controlling interests US\$'000	Total equity US\$'000
Balance at 1 January 2014	72,648	(736)	180	(424)	(894)	(410)	6,025	31,051	107,440	2,522	109,962
Total comprehensive income/(loss) for the period	-	-	-	-	(763)	-	(885)	2,110	462	(266)	196
Investment in a subsidiary by non-controlling interests	-	-	-	-	-	-	-	-	-	32	32
Balance at 31 March 2014	72,648	(736)	180	(424)	(1,657)	(410)	5,140	33,161	107,902	2,288	110,190
Total comprehensive income for the period	-	-	-	-	1,657	-	870	5,011	7,538	164	7,702
One-tier tax-exempt final cash dividend for year 2013	-	-	-	-	-	-	-	(2,139)	(2,139)	-	(2,139)
Dividends paid to non-controlling interests	-	-	-	-	-	-	-	-	-	(265)	(265)
Movement in option to acquire non-controlling interest of a subsidiary	-	-	-	-	-	393	-	-	393	-	393
Balance at 30 June 2014	72,648	(736)	180	(424)	-	(17)	6,010	36,033	113,694	2,187	115,881

Consolidated Statement of Changes in Equity [cont'd]

	←Attributable to equity holders of the Company→										
	Share capital US\$'000	Treasury shares US\$'000	Share option reserve US\$'000	Capital reserve US\$'000	Defined benefit plans reserve US\$'000	Fair value reserve US\$'000	Currency translation reserve US\$'000	Retained earnings US\$'000	Total attributable to equity holders of the Company US\$'000	Non-controlling interests US\$'000	Total equity US\$'000
Balance at 1 January 2013	72,626	(736)	5	180	(188)	-	5,496	25,497	102,880	1,658	104,538
Total comprehensive income/(loss) for the period	-	-	-	-	-	-	(806)	1,608	802	(17)	785
Serial System Executives Share Option Scheme											
- Exercise of share options	17	-	-	-	-	-	-	-	17	-	17
Balance at 31 March 2013	72,643	(736)	5	180	(188)	-	4,690	27,105	103,699	1,641	105,340
Total comprehensive income/(loss) for the period	-	-	-	-	-	(485)	(898)	3,672	2,289	95	2,384
One-tier tax-exempt final cash dividend for year 2012	-	-	-	-	-	-	-	(2,178)	(2,178)	-	(2,178)
Acquisition of a subsidiary	-	-	-	-	-	-	-	-	-	1,225	1,225
Acquisition of additional interest in a subsidiary	-	-	-	-	-	-	-	-	-	(290)	(290)
Dividend paid to a non-controlling interest	-	-	-	-	-	-	-	-	-	(132)	(132)
Serial System Executives Share Option Scheme											
- Exercise of share options	5	-	-	-	-	-	-	-	5	-	5
- Reversal of share option reserve to profit or loss	-	-	(5)	-	-	-	-	-	(5)	-	(5)
Balance at 30 June 2013	72,648	(736)	-	180	(188)	(485)	3,792	28,599	103,810	2,539	106,349

Statement of Changes in Equity - Company

	Share capital US\$'000	Treasury shares US\$'000	Share option reserve US\$'000	Capital reserve US\$'000	Currency translation reserve US\$'000	Retained earnings US\$'000	Total equity US\$'000
Balance at 1 January 2014	72,648	(736)	-	180	17,589	12,139	101,820
Total comprehensive income for the period	-	-	-	-	-	312	312
Balance at 31 March 2014	72,648	(736)	-	180	17,589	12,451	102,132
Total comprehensive income for the period	-	-	-	-	-	445	445
One-tier tax-exempt final cash dividend for year 2013	-	-	-	-	-	(2,139)	(2,139)
Balance at 30 June 2014	72,648	(736)	-	180	17,589	10,757	100,438
	-	-	-	-	-	-	-
Balance at 1 January 2013	72,626	(736)	5	180	17,589	830	90,494
Total comprehensive income for the period	-	-	-	-	-	625	625
Serial System Executives Share Option Scheme							
- Exercise of share options	17	-	-	-	-	-	17
Balance at 31 March 2013	72,643	(736)	5	180	17,589	1,455	91,136
Total comprehensive income for the period	-	-	-	-	-	15,682	15,682
One-tier tax-exempt final cash dividend for year 2012	-	-	-	-	-	(2,178)	(2,178)
Serial System Executives Share Option Scheme	-	-	-	-	-	-	-
- Exercise of share options	5	-	-	-	-	-	5
- Reversal of share option reserve to profit or loss	-	-	(5)	-	-	-	(5)
Balance at 30 June 2013	72,648	(736)	-	180	17,589	14,959	104,640

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

There were no ordinary shares issued since the end of the financial period ended 31 March 2014.

There were no purchase, sale, transfer, disposal, cancellation and use of treasury shares since the end of the financial period ended 31 December 2013.

There were no outstanding share options as at 30 June 2014 (31 December 2013: Nil).

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

	<u>30/06/2014</u>	<u>31/12/2013</u>
Total number of issued shares	905,787,914	905,787,914
Total number of treasury shares	(9,946,000)	(9,946,000)
Total number of issued shares excluding treasury shares	<u>895,841,914</u>	<u>895,841,914</u>

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

Please refer to 1(d)(ii).

1(e) Negative assurance confirmation on interim financial results pursuant to Rule 705(5) of the Listing Manual

The Board of Directors of the Company confirms to the best of their knowledge that nothing has come to their attention which may render the unaudited Second Quarter and Half Year Financial Statements for the period ended 30 June 2014 to be false or misleading.

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

The financial statements have not been audited nor reviewed by the Company's auditors.

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

Not applicable.

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

The Group has applied the same accounting policies and methods of computation in the financial statements for the current reporting period compared with the audited annual financial statements for the financial year ended 31 December 2013.

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

Please refer to paragraph 4 above.

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

	The Group			
	Second Quarter		Year-To-Date	
	2Q2014	2Q2013	30/06/2014	30/06/2013
Based on the weighted average number of ordinary shares in issue (in US\$); and	0.55 cent	0.41 cent	0.79 cent	0.59 cent
On a fully diluted basis (in US\$)	0.55 cent	0.41 cent	0.79 cent	0.59 cent

Earnings per ordinary share on existing issued share capital are computed based on the weighted average number of shares in issue during the period of 895,841,914 (2Q2013/1H2013: 895,702,299).

Earnings per ordinary share on a fully diluted basis is computed based on the weighted average number of shares during the period of 895,841,914 (2Q2013/1H2013: 895,702,299) after adjusting assumed conversion of all potential dilutive ordinary shares.

There were no potential dilutive shares for the financial period ended 30 June 2014.

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

	The Group		The Company	
	30/6/2014	31/12/2013	30/6/2014	30/12/2013
Net assets backing per ordinary share based on the existing issued share capital as at the end of the period reported on (in US\$)	12.94 cents	12.27 cents	11.21 cents	11.37 cents

8. **A review of the performance of the group, to the extent necessary for a reasonable understanding of the group's business. It must include a discussion of the following:-**
- (a) any significant factors that affected the turnover, costs, and earnings of the group for the current financial period reported on, including (where applicable) seasonal or cyclical factors; and**
 - (b) any material factors that affected the cash flow, working capital, assets or liabilities of the group during the current financial period reported on.**

Income Statement

The Group recorded a turnover of US\$475.3 million for the half year ended 30 June 2014 ("1H2014"), an increase of 26% when compared to the equivalent half year ("1H2013"). Net profit after tax ("NPAT") increased 35% to US\$7.1 million as compared to US\$5.3 million in 1H2013 attributable to increased gross profit from higher sales and higher other operating income. Gross profit margin declined 0.4% to 8.8% in 1H2014 due to higher sales of lower-margin products by the Greater China and Singapore subsidiaries. Expenses as a percentage of turnover declined to 7.5% in 1H2014 from 8.1% in 1H2013 as the Group continues to focus on operational efficiency and costs control.

Results for 2Q2014

The Group recorded a turnover of US\$262.9 million for the second quarter ended 30 June 2014 ("2Q2014"), an increase of 28% when compared to the equivalent quarter last year ("2Q2013").

The Group's turnover in North Asia (comprising Greater China, South Korea, Taiwan and Japan) grew 30% as compared to 2Q2013. Turnover of Greater China increased significantly by 47% aided by strong growth in sales to smartphone, household appliance and consumer electronic customers. Taiwan's turnover grew 25% due to the growth of major product lines, supported by addition of new customers. The Group's Japan subsidiary which was acquired in May 2013, contributed US\$6.6 million turnover in 2Q2014 when compared to US\$2.8 million in 2Q2013. South Korea however posted a turnover decline of 23% as compared to 2Q2013 as a result of stiffer competition. North Asia accounted for 83% of the Group's turnover in 2Q2014 as compared to 82% in 2Q2013.

Turnover in South-East Asia and India improved 16% as compared to 2Q2013 mainly due to contribution from new product lines.

The Group's gross profit margin declined to 8.6% in 2Q2014 from 9.2% in 2Q2013 as the Group's Greater China and Singapore subsidiaries recorded higher sales of lower-margin products.

The Group's 2Q2014 NPAT increased 36% to US\$5.0 million as compared to US\$3.7 million for 2Q2013 in tandem with the increased gross profit from higher sales and higher other operating income. Included in other operating income is a gain on disposal of financial assets, available-for-sale of US\$1.4 million (2Q2013: a gain on sale of an investment property of US\$0.8 million). Distribution expenses increased 21% when compared to 2Q2013 mainly due to increased sales activities resulting in higher direct costs including salaries and related costs and higher freight and transportation costs and staff salaries incurred by the Group's Japan subsidiary which was acquired in May 2013. The Group's Singapore subsidiary incurred lower sales commission expense which reduced the impact of the increase in distribution expenses. Finance expenses increased 48% mainly due to higher utilisation of trade facilities by the Group's Hong Kong, Singapore and Taiwan subsidiaries to support the increase sales volume and relatively longer average credit period extended to its customers. A full quarter of interest expenses on bank borrowings incurred by the Group's Japan subsidiary during the current period also contributed to the increase in finance expenses.

The Group's share of profits in associated companies, increased from US\$0.03 million in 2Q2013 to US\$0.1 million in 2Q2014. The Group's newly-acquired 20%-owned associated companies, E-Laundry & Dry Cleaning Services Pty Ltd and SPL Investments Pty Limited contributed profit of US\$0.2 million. This was offset by share of loss of US\$83,000 on the Group's 42.62% associated company, Bull Will Co., Ltd whose higher sales achieved in this quarter were still not able to cover its high fixed operating expenses

Total expenses as a percentage of turnover declined to 7.1% in 2Q2014 from 8.0% in 2Q2013 as the Group continues to focus and improve on operational and cost efficiencies. The Group's net margin improved to 1.9% this quarter from 1.8% in 2Q2013.

Balance sheet

Trade and other receivables increased by US\$39.9 million mainly due to higher sales and longer average credit period granted to its customers. Trade receivables average turnover days increased from 62 days in FY2013 to 70 days in 1H2014.

Inventories increased by US\$15.9 million mainly contributed by higher purchases by the Group's Greater China, South Korean, Singapore and Taiwan subsidiaries in anticipation of higher sales in the third quarter.

Financial assets, available-for-sale decreased by US\$3.9 million mainly due to the sale of an investment in a Singapore-listed equity security. A gain on sale amounting to US\$1.4 million was recognised in the income statement in 2Q2014. The fair value loss of US\$0.9 million as at 31 December 2013 on this equity security recognised under "Fair value reserve" in equity was reversed in 2Q2014 upon the sale.

Investments in associated companies increased by US\$6.9 million mainly due to the acquisition of a 20%-equity interest each in E-Laundry & Dry Cleaning Services Pty Ltd and SPL Investments Pty Limited by the Group's wholly owned Singapore subsidiary, SCE Enterprise Pte. Ltd. in March 2014.

Property, plant and equipment decreased by US\$1.2 million mainly due to the transfer of one office unit owned by a China subsidiary amounting to US\$0.9 million to "Investment properties" following the cessation of owner-occupied status during the current period.

Trade and other payables increased by US\$12.4 million due to higher purchases by the Group's subsidiaries and longer average payment days to certain suppliers. Trade payable average payment days increased from 32 days in FY2013 to 34 days in 1H2014.

Borrowings increased by US\$47.1 million mainly due to higher borrowings by the Group's Hong Kong, Singapore and Taiwan subsidiaries to provide additional working capital to support the increased sales volume and longer average credit period extended to its customers.

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

The Group had on 26 April 2014 released a guidance in its quarterly financial statement announcement for the period ended 31 March 2014 ("1Q2014"), in which it stated that "The Group is reasonably confident, barring unforeseen circumstances, that 1H2014 will exceed that in 1H2013 in both revenue and gross profit on a year-on-year basis".

In line with the guidance, the Group reported a stronger revenue and gross profit in 1H2014 as compared to that in 1H2013 of 26% and 20%, respectively.

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

Amidst a challenging operating environment, the Group remains focused on executing the three-pronged strategies outlined to shareholders on 27 January 2014 to increase revenue, deepen its value proposition and improve internal efficiencies and margins. The half year performance puts the Group on track to achieve the revenue target of US\$1 billion by the end of this financial year, which would represent top-line growth of approximately 22%.

In line with the three-pronged strategy, the Group has made concerted efforts to expand its product lines and customer base, inevitably incurring higher costs in the process. As a result of improved internal and cost efficiencies – mainly due to deeper integration of its internally-developed forecast system which led to better inventory management – the Group continues to see a decrease in expenses as a percentage of turnover.

The Group's recently-acquired 20% equity interests in Australia industrial laundry companies, E-Laundry & Dry Cleaning Services Pty Ltd and SPL Investments Pty Limited contributed US\$0.2 million profits in 2Q2014. The Group is currently working together with the associated companies' management to explore opportunities to grow the businesses within Australia, and expects contribution from these associated companies to increase in the near future.

In line with the Group's long-term growth strategy, it had announced on 22 June 2014 with SGX-listed Achieva Limited and on 9 July 2014 with SGX-listed GSH Corporation Limited the proposed acquisition of both their entire distribution and trading entities (referred as "Achieva distribution entities" and "GSH distribution entities" respectively). Both the proposed acquisitions are synergistic to the Group's core electronic components distribution business – Achieva distribution entities distribute components including that of Intel and Western Digital, while GSH distribution entities distribute lifestyle and consumer electronic finished products which may potentially allow the Group to expand its product offerings to include finished products, creating new revenue streams. In addition, one of Achieva distribution entities operates in Australia and GSH distribution entities have a substantial network in Central Asia, Cambodia and Bangladesh which the Group can leverage on to extend its distribution network to these new markets. The Company will update shareholders as and when there are material updates to both proposed acquisitions.

On 27 May 2014, the Group announced that its wholly owned subsidiary, SCE Enterprise Pte. Ltd. has disposed its entire equity interest in SGX Catalist-listed Jubilee Industries Holdings Ltd ("Jubilee") for approximately US\$6.1 million, allowing the Group to record a net gain of about US\$1.4 million this quarter. The disposal will allow the Group to redirect resources either into its core business or to pursue new opportunities.

The three-pronged strategies outlined in January 2014 have set a clear corporate direction and have already yielded benefits and improvements in efficiency and financial performance. The Group expects the second half-year to perform better than 1H2014, as the first-half is traditionally slower. The Group will continue to build on the momentum thus far and is reasonably confident, barring unforeseen circumstances, that it will achieve its revenue target of US\$1 billion by the end of FY2014.

11. Dividend

a) Current Financial Period Reported On

Any dividend declared (recommended) for the current financial period reported on? Yes

Name of Dividend	Interim
Dividend Type	Cash
Dividend Amount per Share (in SGD cents)	0.30 cent per ordinary share
Optional:- Dividend Rate (in %)	
Par value of shares	Not applicable
Tax Rate	One-Tier Tax-exempt

b) Corresponding Period of the Immediately Preceding Financial Year

Any dividend declared for the corresponding period of the immediately preceding financial year? Yes

Name of Dividend	Interim
Dividend Type	Cash
Dividend Amount per Share (in SGD cents)	0.24 cent per ordinary share
Optional:- Dividend Rate (in %)	
Par value of shares	Not applicable
Tax Rate	One-Tier Tax-exempt

c) Date payable

8 September 2014

d) Books closure date

The Share Transfer Books and Register of Members of the Company will be closed on 29 August 2014 for the preparation of dividend warrants. Duly completed registrable transfers received by the Company's Share Registrar, B.A.C.S. Private Limited at 63 Cantonment Road, Singapore 089758 up to 5.00 p.m. on 28 August 2014 will be registered to determine shareholders' entitlements to the interim dividend. Members whose Securities Accounts with The Central Depository (Pte) Ltd are credited with shares at 5.00 p.m. on 28 August 2014 will be entitled to the interim dividend which will be paid on 8 September 2014. In respect of ordinary shares in securities accounts with The Central Depository (Pte) Ltd ("CDP"), the interim dividend will be paid by the Company to CDP which will, in turn, distribute the dividend to holders of the securities accounts.

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

Not applicable.

13. Interested person transactions.

Pursuant to Rule 907 of the Listing Manual of the Singapore Exchange Securities Trading Limited (the “Listing Manual”), the Board would like to announce a negative statement on the Interested Person Transactions (“IPTs”) for 1H2014 as follows:

Name of Interested Person	Aggregate value of all IPTs during 1H2014 (excluding transactions less than S\$100,000 and transactions conducted under shareholders’ mandate pursuant to Rule 920 of the Listing Manual) US\$’000	Aggregate value of all IPTs during 1H2014 conducted under shareholders’ mandate pursuant to Rule 920 of the Listing Manual (excluding transactions less than S\$100,000) US\$’000
Nil	Nil	Not applicable

14. If the group has obtained a general mandate from shareholders for IPTs, the aggregate value of such transactions as required under SGX Listing Manual Rule 920(1)(a)(ii). If no IPT mandate has been obtained, a statement to that effect.

No mandate from shareholders has been obtained for IPTs.

BY ORDER OF THE BOARD

Derek Goh Bak Heng
Executive Chairman/Group CEO
11 August 2014