



(Registration No. 199202071D)
(Incorporated in the Republic of Singapore on 22 April 1992)

**ANNUAL GENERAL MEETING (AGM) TO BE HELD ON 28 APRIL 2022
RESPONSE TO QUESTIONS FROM SIAS**

The announcement sets out the Company's response to questions received from the Securities Investors Association (Singapore) (SIAS).

Q1. As noted in the corporate profile, the group has 21 offices and 13 warehousing facilities in key Asian markets – Singapore, China, Hong Kong, India, Indonesia, Malaysia, Philippines, South Korea, Taiwan, Thailand and Vietnam. It counts ON Semiconductor, OSRAM Opto Semiconductors, TE Connectivity, Micron, Allegro MicroSystems, GigaDevice, Littelfuse and Molex as its major suppliers.

For the year, revenue increased 22% to US\$895.9 million from US\$731.4 million a year ago, driven by improved performance in the electronic components distribution and consumer products distribution business segments.

Revenue from the electronic components distribution business increased 22% to US\$814.6 million, propelled by higher demand for semiconductors, particularly in Hong Kong and China.

(i) What are the additional value-added services offered by the group?

Serial System offers several value-added services such as:

- (a) Supply chain management solutions which include Just-In-Time, Distributor-managed inventory programs;
- (b) Design services and field application solutions which enhance our customers' products through innovative solutions, giving them a competitive edge and shortening their time to market;
- (c) Providing our suppliers on-the-ground market insights to improve their product offerings;
- (d) Expanding market reach of our suppliers through our broad and diverse customer base, as well as our extensive distribution network; and
- (e) Manufacturing outsourcing for customers who do not have production capabilities or are looking for OEMs for manufacturing.

(ii) Are the price increases in line with the distribution agreements the group has with the principals?

Our suppliers do not interfere with the Group's pricing strategy.

(iii) Given the “unprecedented shortage of chips worldwide”, the high demand for components is a result of firms rushing to stockpile high-demand chips. In management’s opinion, how sustainable is this trend? What adjustments has the group made to its operations?

- (a) We believe that this trend will continue to hold for the near future as the whole manufacturing supply chain is in shortage, from raw materials to lack of capacity in wafer fabs;
- (b) The demand for chips, which has been driven to an all-time high, is not due solely by firms stockpiling chips. Other longer-term factors include the global shift towards work-from-home measures amid the COVID-19 pandemic, the rapid adoption of autonomous and electric vehicles, IoT, 5G, data centres and the infrastructure required to support these technologies, as well as increased demand for Crypto-mining machines. These trends will buoy demand even as chip manufacturers increase production capacity and the shortage of chips eases; and
- (c) Our strong logistics and operations network in Asia Pacific is well equipped to handle the current situation. We are closely monitoring the situation, and have the ability to quickly scale up our backend operations if required.

(iv) What is management’s strategy to secure in-demand inventory from its suppliers?

We work closely with our suppliers/customers to ensure that accurate forecasts and purchase order backlogs are in place. We also have long-term supply contracts with some of our suppliers to ensure supply continuity.

(v) The consumer products distribution business shows promise, growing by 40% to US\$73.6 million. However, this is approximately 8% of the group’s total revenue. Japan accounts for 0.5% of the total revenue. What is the potential of the consumer products distribution business? Does the group have the necessary manpower and capital to scale this up? In addition, Japan is a mature consumer market. How does the group intend to scale up in Japan and how is it competing against the incumbents?

The total available market in Asia for our key suppliers under the consumer products distribution business group easily exceeds US\$1B. This provides significant room for growth within this market segment, which can come about organically (regional expansion in ASEAN countries) as well as through M&A in the region. We will continue to add resources to the business as and when necessary.

Japan is a relatively new market to us, having started operations in mid-2021 amid the COVID-19 lockdown. While it is a mature market, it can certainly accommodate new players like us. We plan to differentiate ourselves by bringing new product offerings and bridging the current gaps in the market.

Q2. As shown in Note 40(a) Segment information: Operating segments, the group has three operating segments with the smallest being “Other businesses”. The company has described the activities of “Other businesses” as follows:

Other businesses include investment holding and trading, investment holding and rental of investment properties, hospitality and healthcare solutions, assembly and distribution of medical devices and ethylene oxide sterilization, manufacturing of medical disposables and surgical supplies, provision of project financing in the form of leasing, hire purchase, factoring and loan, trading and distribution of consumer products, communications and power line construction, manufacturing, sale and leasing of industrial and security robots and automated guided vehicles, and provision of artificial intelligence and robotic solutions and services for security, delivery and mobility applications, provision of security services and management of commercial and industrial estate, retail sale of beverages and manufacturing and retail sale of organically grown health products.

As shown in Note 40, “Other businesses” contribute 0.9% of the group’s total revenue while accounting for \$58.3 million or 13.6% of the group’s total assets.

Segment loss from other businesses was \$(545,000), with the share of results of associated companies reporting \$(687,000).

The Group	Electronic components distribution	Consumer products distribution	Other businesses	Inter-segment eliminations	Total
	US\$'000	US\$'000	US\$'000	US\$'000	US\$'000
2021					
Sales – external	831,931	73,601	7,972	(17,611)	895,893
Segment results - operating profit/(loss)	17,580	636	(545)	–	17,671
Unallocated gain	6	–	9	–	15
Finance income	757	381	2,459	(1,272)	2,325
Finance expense	(4,306)	(741)	(1,479)	1,272	(5,254)
Share of results of associated companies (after income tax)	27	2	(687)	–	(658)
Profit before income tax					14,099
Income tax expense					(1,510)
Profit after income tax					12,589
Segment assets	403,112	40,072	58,281	(73,405)	428,060
Investments in associated companies	1,879	2,241	4,616	–	8,736
Deferred income tax assets					1,001
Consolidated total assets					437,797
Segment liabilities	96,676	16,037	50,474	(73,405)	89,782
Borrowings	144,832	20,558	18,818	–	184,208
Current and deferred income tax liabilities					2,412
Consolidated total liabilities					276,402

(Source: company annual report)

(i) What are the long-term returns achieved from the “other businesses” segment? Is there a robust investment framework to guide the group’s investments so that the group remains focused?

Contract Sterilization Services Pte Ltd, a wholly-owned subsidiary of the Group, operates in the healthcare space – which provides attractive gross margins relative to our electronics business. Serial Multivision Pte. Ltd., another wholly-owned subsidiary of the Group, offers resource planning and supply chain software solutions to the hospitality and healthcare industry. Both companies continue to deliver stable return for the Group. The Company is continually looking for avenues to scale this part of our business.

Our investment philosophy is guided by:

- (a) Whether we are able to add value to our investments by leveraging our knowledge and expertise in product distribution, as well as our extensive network in Asia Pacific to increase distribution points, customer base and product partners. We also look for synergy between our investments and our core business. As examples, the investee companies can work with us through (i) procurement of electronic components from us, (ii) outsourcing their manufacturing to us or our existing partners or (iii) giving us the rights to distribute their products;
- (b) Spotting new trends in the market which offer potential capital gain opportunities within a 5-year timeframe; and
- (c) Ongoing efforts to build alternate businesses to electronic components and consumer products distribution. This has always been part of our diversification strategy to provide new market opportunities and additional income streams for the Group with a view to enhancing shareholders’ value over the long term.

(ii) What is the level of oversight of the board and by management?

The Board deliberates and makes decision on any investment that exceeds US\$1 million. This is a prudent measure relative to our Group’s net tangible assets of about US\$158 million as at 31 December 2021.

Quarterly updates are provided by the management team to the Board in these investments.

(iii) In particular, the group is involved in litigation with Musang Durians Frozen Food (M) Sdn. Bhd. for the breach of the terms of the shareholder agreement and seeks to recover the outstanding loan amount and unpaid interest totaling RM15.45 million. Can the company help shareholders understand if there is any synergy between durian products trading and electronic components distribution? If not, what was the rationale to invest in this? What is the current status of Musang Durians Frozen Food and the state of the relationship with the management team?

While there is little synergy to the electronic components distribution business, the intention was to export and distribute durian and durian related products to China. The management team was of the view, at that time, that our strong network and relationship in China would be relevant to this export and distribution business of a product with growing demand in a huge Chinese market.

Musang Durians Frozen Food (M) Sdn. Bhd. (“MDFF”) is currently inactive. As detailed in our announcement “Announcement of Litigation” on 14 March 2022, we have commenced legal proceedings in the High Court of Malaya at Kuala Lumpur, Malaysia against MDFF for RM15.45 million (US\$3.68 million) (“Claim”) and its managing director and 40% shareholder of MDFF for RM7.73 million (US\$1.84 million), being 50% of the Claim guaranteed by him.

(iv) Would the board consider it timely to carry out a strategic review with the goal of streamlining and divesting the group's other businesses and to focus on the core business of electronic components distribution?

Our electronic components distribution business continues to be our focus. We will actively review our existing businesses and investments so as to seek opportunities to unlock and enhance value for our shareholders.

Q3. As disclosed in the corporate governance report, the company has an in-house internal audit function that reports directly to the audit committee (AC). For the year under review, the internal auditor (IA) has unrestricted access to all of the group's documents, records, properties and personnel.

The IA is independent of the activities it audits. The IA is a certified internal auditor with relevant qualifications and experience. As noted in the corporate profile, the group has 21 offices and 13 warehousing facilities in several key Asian markets, and over 5,000 customers. Revenue for the year was US\$895.9 million.

(i) Can the AC confirm that the group's in-house internal audit function is a single individual?

The AC confirmed that the Group's in-house internal audit function was carried out by a single certified internal auditor with relevant qualifications and experience.

(ii) On what basis did the AC consider that the IA function was adequately resourced?

In assessing whether the IA function is adequately resourced, the AC has considered the following factors:

- (a) Annual budget and resource requirements from the internal audit plan that was presented by the internal auditor;
- (b) Results of the Group-wide risk management program and the alignment of key risks to the internal audit plan;
- (c) Completion of the audit projects in accordance with the internal audit plan; and
- (d) Quality and timeliness of IA reports to the AC.

(iii) Given that national borders were mostly closed in FY2020 and FY2021, did the IA face any challenges when carrying out his/her activities, especially in the coverage of the overseas operations?

Internal audit function had faced challenges of performing audits remotely for overseas entities during the pandemic as large amounts of evidence were required to be presented online. Therefore, during the pandemic, the internal audit function embraced short term prioritization on auditing and strengthening the internal controls of the Group's local entities covering electronic components distribution, consumer products distribution and other businesses division. In addition, the overseas offices and warehouses of key operating subsidiaries were either audited by external certification body, BSI Group for Quality Management System and Business Continuity Management System or local authorities for internal and trade compliance annually depending on their type of certificates and were successfully re-certified.

Having said that, the Board is considering co-sourcing as an option to support the in-house internal auditor in coming years if more resources are required for the rigorous audit of overseas subsidiaries.

(iv) Can the AC confirm that all the major operating subsidiaries and joint ventures were included in the IA plan?

On an annual basis, the internal auditor submitted to the AC an internal audit plan for review and approval. The internal audit plan is developed based on prioritization of the audit universe using a risk-based methodology. The AC had assessed and confirmed that most of the operating subsidiaries and joint ventures were included in the annual internal audit planning prior to the formulation of the internal audit plan.

(v) What was the scope of the internal audit in FY2021? What were the key findings by the internal auditor?

In FY2021, the internal audit focus primarily on:

- (a) Security for information technology and effectiveness of the Group's Information Technology systems;
- (b) Review of accounting, financial and other controls over key business processes like sales, procurement and inventory management;
- (c) Key business process compliance with established policies and procedures;
- (d) Entities' adherence to laws and regulations relevant to their business processes; and
- (e) Controls over safeguarding and accounting of the entities' assets and liabilities.

Out of the total of 13 audit findings raised, 4 of them were low risk findings, 9 of them were medium risk findings and there was no high risk findings raised. The key audit findings were related to improvements required for cybersecurity, procurement and customer service functions. The Internal Auditor will follow through and ensure the recommendations to address the control weaknesses are implemented

In FY2021, the internal audit function also carried out an annual corporate risk assessment and management review with various stakeholders. There was no change to the top 10 key risks identified in prior years.

On top of the audit focus, the internal auditor had also worked with various stakeholders on the following projects:

- (a) Serial Microelectronics Inc (Taiwan) (Review on certain controls and operating procedures);
- (b) ISO 9001:2015 Quality Management System annual re-certification; and
- (c) ISO22301:2019 Business Continuity Management System transition re-certification from ISO 22301:2012 to ISO 22301:2019.

By Order of the Board

Wui Heck Koon
Company Secretary

21 April 2022