



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

RESPONSE TO QUERIES FROM THE SINGAPORE EXCHANGE SECURITIES TRADING LIMITED

The Board of Directors (the “**Board**”) of Serial System Ltd (the “**Company**”, and together with its subsidiaries, the “**Group**”) refers to the queries raised by the Singapore Exchange Securities Trading Limited on 25 September 2023, in relation to the Company’s unaudited financial statements for the six months ended 30 June 2023 announced on 10 August 2023.

The Board sets out its responses as follows:

Query (i):

The Company reported a significant increase in relation to its “Loss allowance on trade and other receivables” from US\$421,000 for the 6 months ended 30 June 2022 to US\$1,699,000 for the 6 months ended 30 June 2023 (“**1H2023**”). In this regard, please disclose the following:

- (a) The breakdown and nature of these trade and other receivables, including the underlying transactions of the other receivables;
- (b) The reason(s) for the loss allowance recognised on the trade and other receivables, including the reasons for delays or non-payment (where applicable), as well as its significant increase from US\$421,000 for the 6 months ended 30 June 2022 to US\$1,699,000 for 1H2023;
- (c) How long were the debts outstanding and when were the sales reported;
- (d) What were the actions taken to recover the trade and other receivables prior to recognizing the loss allowance of US\$1,699,000 as at 30 June 2023;
- (e) The Company’s policy for the collection of its trade and other receivables, and the general credit term extended to customers;
- (f) The percentage of revenue earned in 1H2023 which was deemed uncollectible; and
- (g) The aging analysis and assessment of the recoverability of the remaining trade and other receivables.

Company’s Response:

- (a) As disclosed under note 6 of the Company’s unaudited financial statements for 1H2023, the loss allowance of US\$1,699,000 for 1H2023 and US\$421,000 for 1H2022 related only to loss allowance arising on trade receivables for the respective period.

The loss allowance on trade receivables for 1H2023 arose from project financing loans to a customer of the Group’s Thailand subsidiaries in the Other Businesses segment amounting to US\$1,874,000 and reversal of loss allowance of US\$175,000 (see response (b) below for more details). The loss allowance on trade receivables for 1H2022 arose mainly from sales to customers in the Electronic Components Distribution segment and project financing loans to customers of the Group’s Thailand subsidiaries in the Other Businesses segment amounting to US\$143,000 and US\$276,000 respectively.

Please refer to response (g) below for details of the remaining trade and other receivables.

- (b) The Group applies the Singapore Financial Reporting Standards (International) 9 simplified approach to measure expected credit losses which uses a lifetime expected credit loss allowance for trade receivables carried at amortised cost. The expected credit loss rates are based on the payment profiles of trade receivables over a period of 36 months before the reporting date and the corresponding historical credit losses experienced within this period, adjusted for macroeconomic factors affecting the ability of the customers to settle the receivables. For 1H2023, the Group has reversed an allowance of US\$175,000 based on 12-month expected credit loss.

For 1H2023, loss allowance amounting to US\$1,874,000 was individually assessed and provided on a non-performing trade receivable in relation to a customer of the Group's Thailand subsidiaries in Other Businesses segment, namely Serial Factoring (Thailand) Co., Ltd and Serial Consulting Co., Ltd (collectively "Serial Factoring Group"). Serial Factoring Group is in the business of provision of project financing in the form of factoring and loan to corporations in Thailand. Loss allowance was made for this customer due to overdue of the amount outstanding by this customer who has faced cash flow shortages as a result of delay in completion of projects in Thailand impacted by the COVID-19 pandemic. The calculation of the credit impaired amount of US\$1,874,000 for 1H2023 took into consideration the value of collaterals from this customer and possibilities of expected future cashflows to offset the repayment of the receivable.

- (c) The loss allowance on trade receivable of US\$1,874,000 related to loan balances that were outstanding between 181 days to 360 days. A total finance and fee income earned and paid by this customer of US\$111,000 was recorded in "other income" in the income statement in 1H2023. For project financing loan, only project fee and interest are earned and recorded in "other income" in the income statement.
- (d) The Group has taken the following actions to recover the trade receivable from the customer prior to recognizing the loss allowance of US\$1,874,000 as at 30 June 2023:
- (i) Contacts with customer to understand their business and financial / cash flow situation and push for payment of overdue loans including sending of overdue statements and letters of demand to the customer;
 - (ii) Meetings with customer to discuss and appraise the various projects of the customer which Serial Factoring Group has provided project financing loans;
 - (ii) Meetings with the customer's main contractors together with the customer to request the main contractors to make payment directly to Serial Factoring Group for project collections; and
 - (iii) Discussion with external Thailand lawyer on the strategy and option to initiate a legal suit against the customer. As of 18 September 2023, Serial Factoring Group has filed the legal suit with Thailand civil court.
- (e) The Group generally grants a credit period on average that ranges from 0 to 90 days to its customers. If invoices remain unpaid for more than 14 days beyond the credit term expiration, overdue statements are electronically sent to customers. A second reminder will be sent 30 days after the due date. Both accounts receivables' finance personnel and sales personnel share the responsibility of monitoring and following up with customers who have overdue receivables. Customers with outstanding balances exceeding 30 days after the credit term expiry are flagged and placed on credit hold for further assessment and monitoring. Customers with outstanding balances exceeding 45 days after the credit term expiry are immediately put on credit hold until the overdue amounts are settled. The credit limit extended to each individual customer is determined by the management through ongoing credit evaluation. The customer's payment profile and credit exposure are continuously monitored at the entity level

by the respective head of operation, and finance department and at the Group level by the corporate finance and management team.

The Group also purchased credit insurance to reduce credit risk from extension of credit to the majority of its customers in the electronic components distribution business and certain customers in the consumer products distribution business.

- (f) Not applicable. For project financing loans to the customer in which the loss allowance on trade receivable of US\$1,874,000 was provided for 1H2023, only finance and fee income were earned and recorded in “other income” in the income statement. Refer to (c) for more details.
- (g) Excluding trade receivables of US\$7,856,000 which are individually assessed and for which loss allowance of US\$7,856,000 has been provided, the aging analysis of the remaining trade and other receivables are as follows:

	Total Outstanding	Overdue days					
		Current	0-30 days	31-60 days	61-90 days	91-180 days	Over 180 days
		US\$'000	US\$'000	US\$'000	US\$'000	US\$'000	US\$'000
Remaining trade receivables which are collectively assessed and not individually assessed, gross	148,891	105,635	27,495	4,650	2,473	4,635	4,003
Less: expected credit loss	(656)						
Trade receivables, net	148,235						
Add: other receivables, net	8,547						
Total trade and other receivables, net	156,782						

For trade receivables, the Group adopts the policy of dealing with customers of good financial standing and good credit rating based on in-house credit assessments performed in accordance to corporate credit policies and procedures and if available, professional credit reports and sufficient security are obtained, where appropriate to mitigate credit risk. As at 30 June 2023, these remaining trade receivables, net of allowance, are assessed to be recoverable as there are no indications of risk of credit default.

Other receivables of US\$8,547,000 mainly comprised:

- Goods and Services tax and Value-Added tax recoverable from tax authorities of US\$4,300,000;
- amounts due from associated companies totalling US\$2,077,000, of which US\$1,735,000 are secured by assets; and
- amount of US\$1,284,000 due from Otsaw Digital Pte. Ltd., an unlisted equity security of which the Group has a 15.92% equity interests [refer to response to query (iii)(a) below].

As at 30 June 2023, these other receivables are assessed to be recoverable as there are no indications of risk of credit default.

Query (ii):

At pg 14 and pg 19, the Group reported an increase in “allowances for inventory obsolescence” from US\$1,027,000 as at 30 June 2022 to US\$3,690,000 as at 30 June 2023.

At pg 24, the Group also disclosed that *“Other operating expenses increased by US\$4.0 million or 32% to US\$16.6 million. The increase was mainly due to higher allowances for inventory obsolescence of US\$2.7 million, loss allowance on trade receivables of US\$1.3 million, and net foreign exchange loss of US\$1.1 million attributed mainly to the depreciation of the Chinese Renminbi, Japanese Yen, Malaysia Ringgit and Thailand Baht against the United States Dollar in 1H2023 ... The Group reported a net loss after tax of US\$12.7 million in 1H2023 as compared to a net profit after tax of US\$0.4 million in 1H2022. The loss in 1H2023 was mainly due to a net foreign exchange loss of US\$4.8 million, allowances for inventory obsolescence of US\$3.7 million, loss allowance on trade and other receivables of US\$1.7 million and higher interest expenses impacted by the high interest rates.”*

- (a) Please explain the increase in the allowance for inventory obsolescence.
- (b) We note that the Company had incurred foreign exchange losses, which significantly contributed to its net loss in 1H2023. In this regard, please explain whether the Company has adopted any foreign exchange hedging policy, and whether this policy has been approved by the Audit Committee.

Company’s Response:

- (a) The increase in allowance for inventory obsolescence from US\$1,027,000 in 1H2022 to US\$3,690,000 in 1H2023 was mainly attributed to increased amount of slow-moving inventories held by the Group’s electronic components distribution subsidiaries in Hong Kong and China as at 30 June 2023 when compared to the perious period. This was due to weak consumer and industrial demand in China which resulted in weak demand for semiconductor chips and inventory oversupply in the market and led to customers delaying order intake to digest earlier stockpiles as they assessed the challenging business and operating environment including geopolitical tensions.
- (b) The Company has foreign exchange hedging policies for the Group’s subsidiaries with significant exposure to foreign currencies in United States Dollar against Chinese Renminbi, Malaysian Ringgit, Thailand Baht, Japanese Yen and Singapore Dollar. These policies were discussed and concurred by the Audit Committee. For 1H2023, approximately US\$3.8 million of the foreign exchange loss, was unrealised, and accounted for 79% of the total foreign exchange loss of US\$4.8 million. These foreign exchange loss arose mainly from inter-company United States Dollar payables due by the China, Japan, Thailand and Malaysian subsidiaries which respective currencies have significantly weakened against the United States Dollar during 1H2023. The Group monitored on a daily basis the directions of these currencies against the United States Dollar through daily currency news emailed from its bankers as well as discussions with the currency bankers to make decision whether to enter into foreign exchange forward contracts to mitigate its currency exposures. As the cash flows from these subsidiaries to repay the United States Dollar inter-company payables from collections of trade receivables and sales of its inventories are not certain, the management enters into foreign exchange forward contracts or makes foreign currencies conversion in accordance to its monthly requirements for United States Dollar, rather than hedging the entire amount of the inter-company United States Dollar payables exposure with these subsidiaries.

Query (iii):

We refer to Note 15 of the financial statements.

- (a) The Group reported an aggregate of US\$6,117,000 and US\$5,252,000 in unlisted equity securities as at 31 December 2022 and 30 June 2023 respectively. In this regard, please provide details and explain the nature of the Group's investment in these unlisted equity securities.
- (b) The Group reported "Trade receivables" amounting to US\$8,980,000 as at 30 June 2023. What is the nature of such trade receivables and how are they different from the trade receivables reported at Note 13?

Company's Response:

- (a) The detailed breakdown of the Group's investment in unlisted equity securities as at 30 June 2023 and 31 December 2022 is as follows:

	The Group		
	30 June 2023	31 December 2022	
	US\$'000	US\$'000	
Unlisted equity securities ⁽¹⁾:			Principal activities
Otsaw Digital Pte. Ltd. ⁽²⁾	4,884	4,938	Manufacturing, sales 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.
Doxa Holdings International Pte. Ltd.	184	187	Development of software, applications and/or products for the automation of business processes such as procurement, invoice processing and invoice financing.
Meyzer360 Holdings Pte. Ltd.	184	187	Provision of super-app for business compliance and services.
Nokivi AB ⁽³⁾	-	805	Research and experimental development on biotechnology, life and medical science and trading and distribution of scientifically proven healthy food products.
Total	5,252	6,117	

- ⁽¹⁾ These entities are either technology companies or sustainable food startup with growth potential. These investments are part of the corporate strategy of the Company for long term growth to provide shareholders with diversified returns, additional income streams and long-term investment return.
- ⁽²⁾ Refer to the Company's SGX announcement dated 23 February 2023 on the dilution of equity interests in Otsaw Digital Pte. Ltd from 19.90% to 15.92% pursuant to a restructuring exercise. Otsaw Digital Pte. Ltd. ceased to be an associated company of the Group and was reclassified to financial assets, at fair value through profit or loss as at 31 December 2022.
- ⁽³⁾ Refer to the Company's SGX announcement dated 10 August 2023 on the completion of a restructuring exercise in March 2023 to incorporate subsidiary, Nokivi Holdings Pte. Ltd. to swap the equity interest in Nokivi AB to equity interests in Nokivi Holdings. Pte. Ltd. Following the restructuring, Nokivi AB was reclassified from financial assets, at fair value through profit or loss to a wholly-owned subsidiary of Nokivi Holdings Pte. Ltd.

(b) Trade receivables which are subjected to factoring agreements arrangement with banks to obtain bank financing are to be categorised under “Financial assets, at fair value through profit or loss” as they do not meet the criteria of trade receivables for measurement at amortised cost under the Singapore Financial Reporting Standards (International) 9. Accordingly, an amount of US\$8,980,000 was reclassified from trade receivables to financial assets, at fair value through profit or loss as at 30 June 2023.

Query (iv):

The Group reported an aggregate of US\$180,656,000 of borrowings which are repayable in one-year or less, or on demand, as at 30 June 2023. The Group also reported cash and cash equivalents of US\$36,374,000 as at 30 June 2023, as well as a net loss after tax of US\$15,091,000 in 1H2023.

In this regard, please disclose the Board’s assessment on (a) whether the Company’s current assets are adequate to meet the Company’s short-term liabilities of US\$180,656,000, including its basis of assessment; and (b) how the Company intends to fulfill its significant payment obligations in the next 12 months. Where the Company has worked out debt repayment plans to fulfil its debt obligations, please disclose if the Company is on track to fulfilling these obligations.

Company’s Response:

Of the US\$180.7 million bank borrowings, about US\$169.7 million related to short term revolving loans and trade financing loans from the banks used by the Group to finance purchases of inventories and working capital requirements. These trade loans usually mature from 60-120 days and will be repaid using collections from trade receivables and cash and cash equivalents of the Group and are immediately available for use upon repayment. As at 30 June 2023, the Group’s total trade receivables with an average turnover of 83 days and cash and cash equivalents amounted to US\$193 million, which are sufficient to repay these short term revolving loans and trade financing loans of US\$169.7 million when they fall due as well as the current portion of term loans, lease liabilities and other borrowings amounting to US\$11.0 million. Further, the Group’s total current assets as at 30 June 2023 stood at US\$353.7 million which exceeded the total current liabilities by US\$91.4 million. In addition, included in current assets as at 30 June 2023 were inventories amounting to US\$141.5 million which has an average turnover of 82 days. Based on the above reasons and the Group’s forecast of its cash flows and available undrawn bank facilities, the Board has assessed that the Company’s current assets are adequate to meet the Company’s short-term borrowings of US\$180.7 million, inclusive of the repayment of the current portion of the term loans, lease liabilities and other borrowings amounting to US\$11.0 million in accordance to the repayment plans.

BY ORDER OF THE BOARD

Derek Goh Bak Heng

Group Chief Executive Officer

29 September 2023