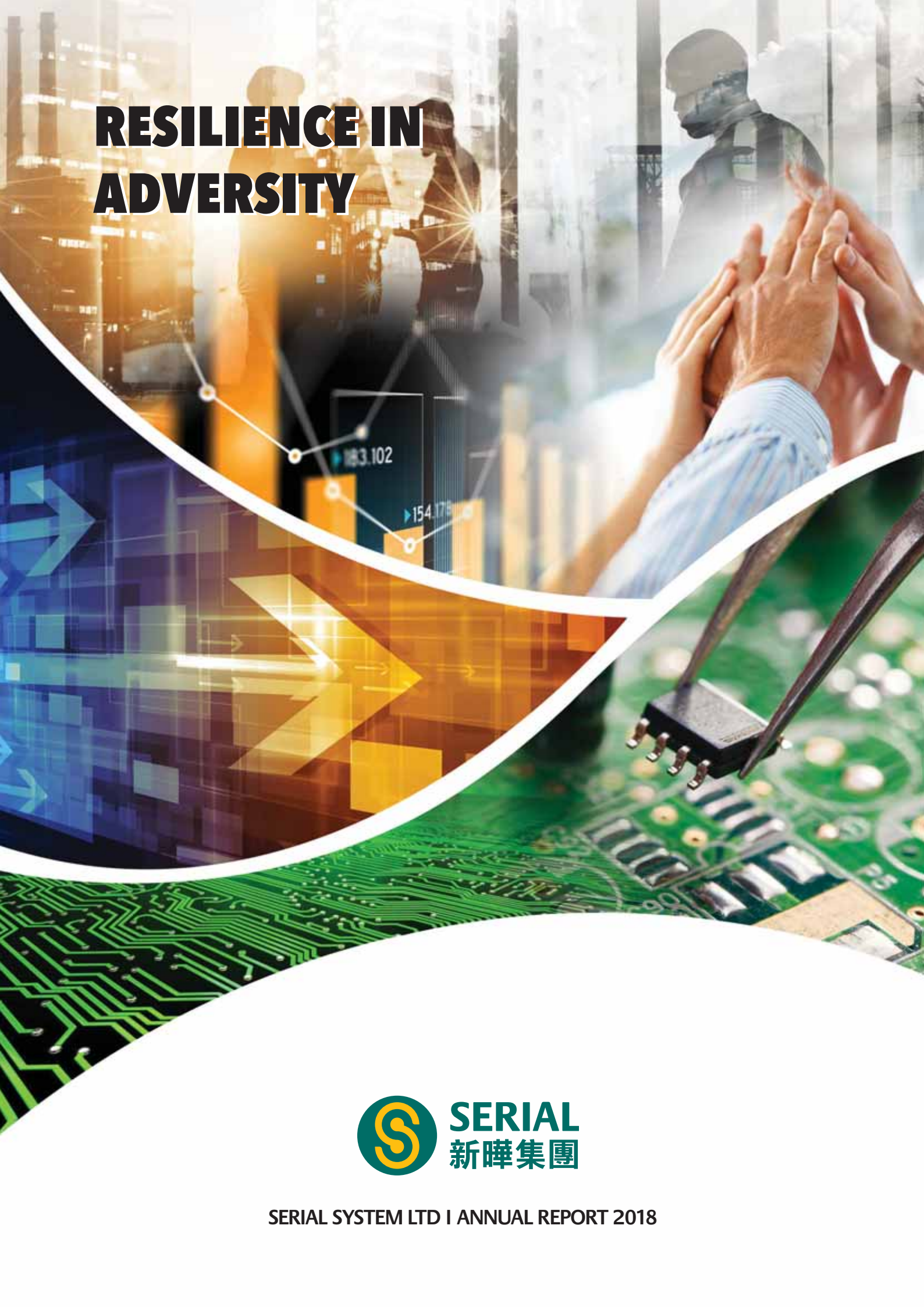


RESILIENCE IN ADVERSITY



SERIAL
新曙集團

SERIAL SYSTEM LTD | ANNUAL REPORT 2018

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“ By moving forward and thinking forward, Serial System helps its partners to be more competitive in the marketplace, today and in the future”

Corporate Profile

Established in Year 1988, listed in April 1997 and currently traded on the Main Board of the Singapore Exchange, Serial System owns and operates a synergistic global distribution network built on strong partnerships with suppliers and customers. In Year 2013, which marked its 25th year in business, Serial System crossed the S\$1 billion revenue mark, making it the largest electronic components distributor listed in Singapore.

Serial System has a customer base of more than 7,000, spanning a diverse range of industries such as consumer electronics, telecommunications, household appliances, industrial, electronics manufacturing services, automotive and medical. Its major suppliers include Texas Instruments, ON Semiconductor, SK Hynix, OSRAM Opto Semiconductors and TE Connectivity.

With 30 offices and 13 warehousing facilities in key Asian markets – Singapore, China, Hong Kong, India, Indonesia, Malaysia, the Philippines, South Korea, Taiwan, Thailand and Vietnam – Serial System has one of the largest and most extensive distribution networks in the region.

Being in close proximity to its customers and suppliers gives Serial System the ability to align itself to their goals, better understand their needs in order to reduce time-to-market and response time, and improve inventory management. In meeting their engineering and supply chain needs, Serial System has become their integral component for success.

Serial System also enhances demand for its suppliers' components and contributes to its customers' product development by adding value to their products through design and other initiatives.

In Year 2014, Serial System entered a new chapter of growth by diversifying into the distribution of consumer products. Its current portfolio of consumer products consists of household appliances and lifestyle goods, including printer accessories, camera accessories, processors, motherboards and hard-disk drives. Serial System expanded their reach again in Year 2017 with a new managed print service offering.

Major suppliers of consumer products distributed by Serial System include Hewlett-Packard, Intel, Asus, Canon and Samsung.

Serial System will continue to help its partners to be more competitive in the marketplace, today and in the future.

OUR VISION

To be the leading electronic components and consumer products distribution partner, known for our dynamic demand creation activities, extensive network and strong local expertise.

OUR MISSION

To provide a wealth of growth opportunities for our stakeholders.

Towards our partners – We provide market insights to our business partners to enable faster time-to-market. To our suppliers, we help expand their market reach. To our customers, we provide innovative and competitive solutions.

Towards our staff – By empowering our staff with the right resources and looking after their well-being, we help them to be their best at work, grooming them to be our leaders of tomorrow.

Towards our shareholders – We strive to make steady progress in every aspect of our business, providing our shareholders with consistent and favourable dividend yields.

Towards our community – By staying in touch with the community, we are able to contribute in ways that are close to their needs.

OUR VALUES

Progressiveness – Derived from the drive to achieve our targets and the courage to change for the better.

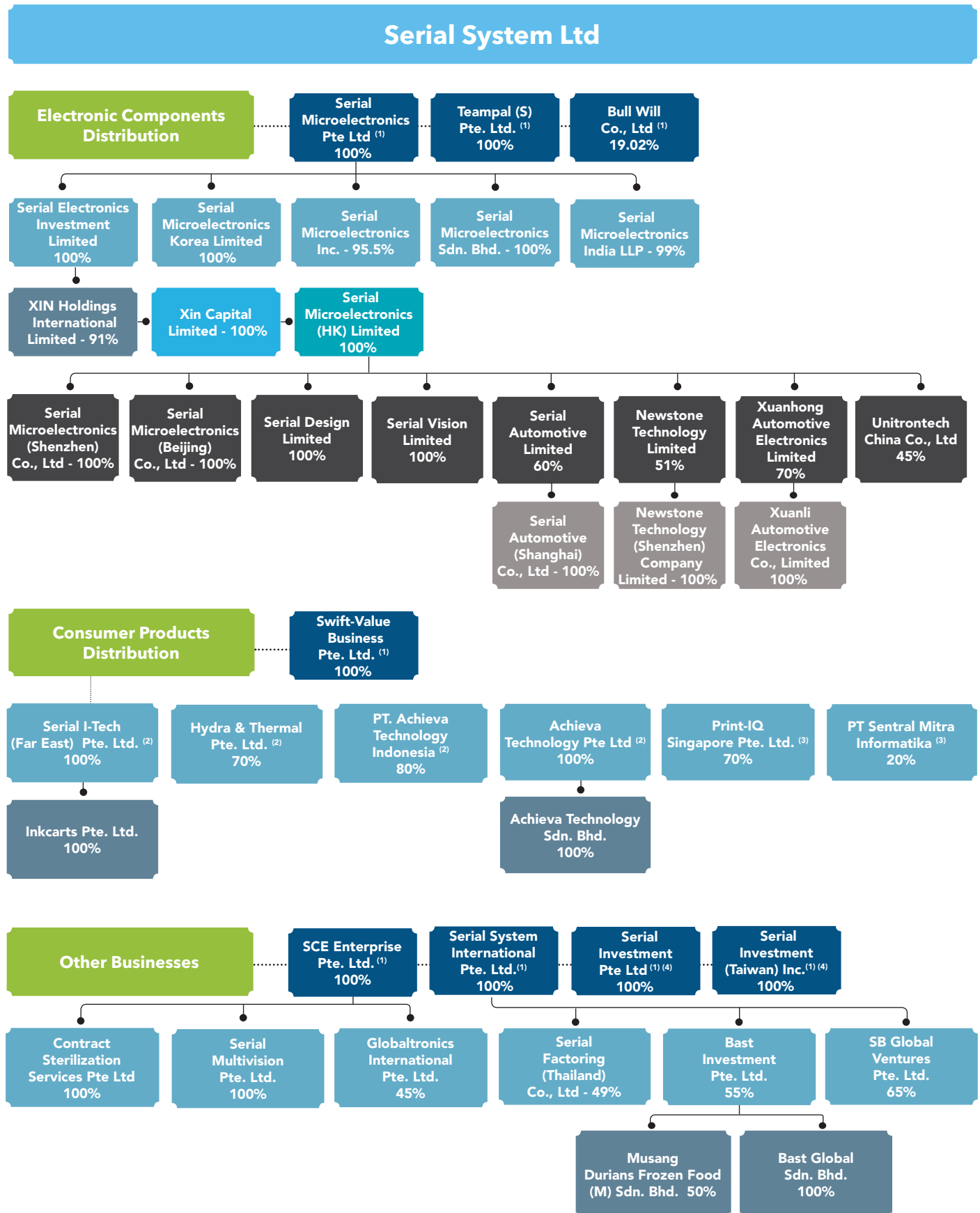
Empowerment – Encouraged by giving our staff the power to make decisions.

Efficiency – Arose from working smart, doing our work well, and using our resources effectively to serve our customers and suppliers well.

Teamwork – Striving towards a common goal in one spirit – despite our cultural or individual differences.

Group Structure

As at 28 March 2019



Note:

⁽¹⁾ Entities held by Serial System Ltd

⁽²⁾ Entities held by SCE Enterprise Pte. Ltd.

⁽³⁾ Entities held by Serial System International Pte. Ltd.

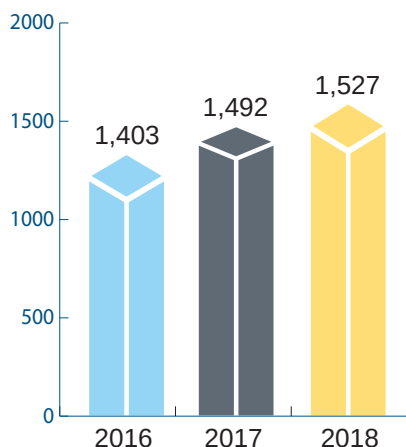
⁽⁴⁾ Investment holding and trading, and rental of properties

⁽⁵⁾ Excludes entities which are inactive, dormant or in process of liquidation

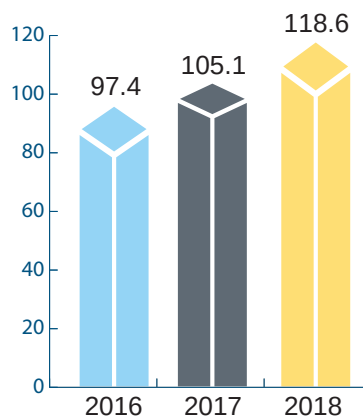
⁽⁶⁾ Please refer to Note 21 and Note 19 of the accompanying notes to financial statements for a full listing of the Group's subsidiaries and associated companies

Financial Highlights

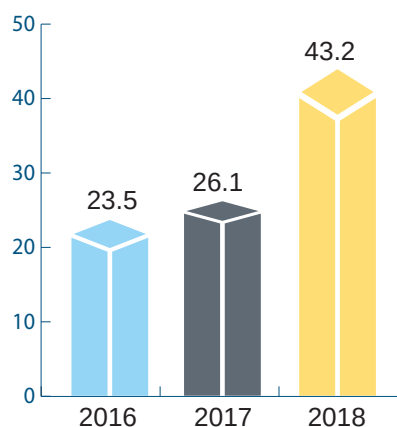
Revenue
(US\$' million)



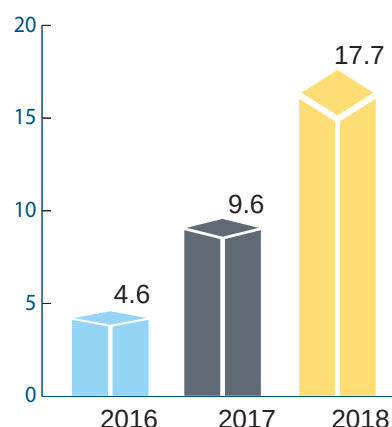
Gross Profit
(US\$' million)



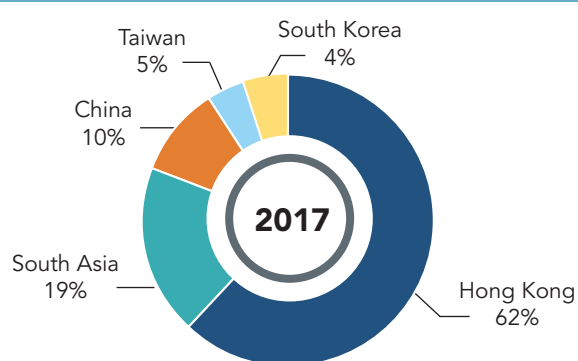
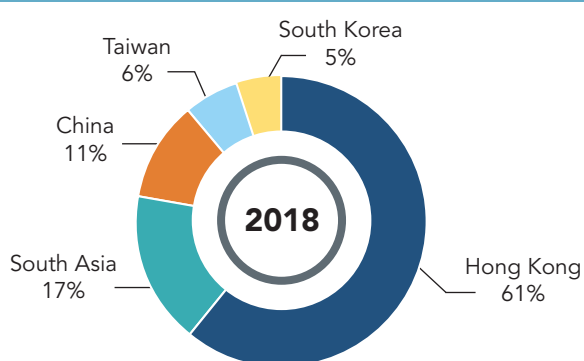
EBITDA
(US\$' million)



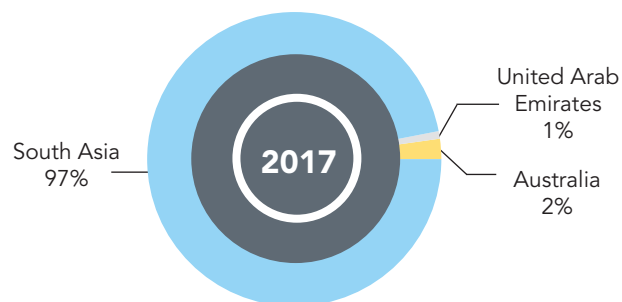
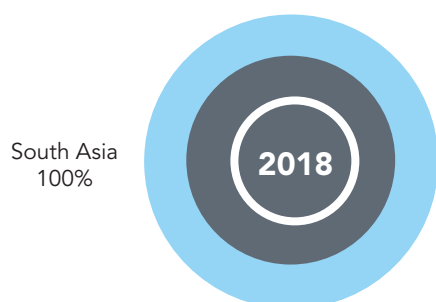
Profit Attributable to Equity Holders
(US\$' million)



Revenue by Market - Electronic Components Distribution



Revenue by Market - Consumer Products Distribution



	2018 US\$'000	2017 US\$'000	2016 US\$'000
Capital Employed			
Working Capital	87,019	71,051	58,590
Total Assets	521,080	554,288	512,602
Net Assets	144,461	145,015	124,787
Net Assets per Share (United States cents) ⁽¹⁾	15.26	15.35	13.39
Net Debts	155,857	166,502	139,272
Share Capital			
Issued and Fully Paid (including Treasury Shares)	72,648	72,648	72,648
Number of Shares Issued (thousands)	905,788	905,788	905,788
Number of Treasury Shares (thousands)	(9,946)	(9,946)	(9,946)
Number of Shares Issued excluding Treasury Shares (thousands)	895,842	895,842	895,842
Earnings and Dividend per Share			
Earnings per Share (United States cents) ⁽²⁾	1.97	1.07	0.51
Dividend per Share (Singapore cents)	1.86	0.75	0.35
Dividend Yield (%) ⁽³⁾	21.9	4.6	2.4
Ratios			
Current Ratio	1.23	1.18	1.16
AR Turnover (days)	54	51	49
AP Turnover (days)	29	35	33
Inventory Turnover (days)	41	42	40
Cash Conversion Cycle (days)	66	58	56
Net Gearing Ratio	1.08	1.15	1.12

⁽¹⁾ Net Assets per Share is calculated based on the net assets value attributable to the equity holders of the Company on 895,841,914 shares in issue as at 31 December 2018, 31 December 2017 and 31 December 2016 respectively.

⁽²⁾ Earnings per Share is calculated based on profit after tax on weighted average of 895,841,914 shares in issue for financial year ended 31 December 2018, 31 December 2017 and 31 December 2016 respectively.

⁽³⁾ Dividend Yield is calculated based on dividend per share over Serial System Ltd's share price as at the end of each respective financial year.

Chairman's Statement

Dear Shareholders,

Having led Serial System for 31 years now, I have encountered countless hard knocks and adversities in the semiconductor industry and in business. By sheer grit, persistence and, in some cases, a stroke of fortune, this company has weathered many of these unkind situations and emerged stronger each time. I am confident this will continue to be so even as we double down on efforts to grow our business in the wake of certain challenges last year and as the global economy turns increasingly cloudy in Year 2019.

As you might recall, Texas Instruments ("TI") informed us in October last year that it would terminate its distribution agreements with our wholly-owned Serial Microelectronics Pte Ltd, the holding company of all our subsidiaries involved in electronic components distribution.

TI has for years been a major supplier of microchips to our business and our single-largest revenue contributor. As you can imagine, the loss of this large account has repercussions for us. We have already allowed to lapse an application to list our subsidiary Serial Microelectronics (HK) Limited on the Stock Exchange of Hong Kong. We are also in the process of rightsizing our workforce and trimming down operating expenses.

In seeking to mitigate the fallout, we announced in December 2018 a transfer of our TI distribution business to another distributor authorised to work with the chipmaker. We decided on this course of action to ensure minimal disruption to our customers' operations and to allow us to realise some capital returns from our distribution business with TI before it ends on 30 June 2019. We have also been actively looking for other suppliers and channel partners to work with.

Financial Snapshot

Notwithstanding TI's decision to part ways, we ended Year 2018 with a net profit of US\$17.7 million, up from US\$9.6 million in the previous year. The sale of our entire 27.34% stake in laundry firm SPL Holdings (Australia) Pty Ltd ("SPL") for A\$40.2 million (US\$29.0 million) was a key contributor to the earnings improvement. We reaped a gain of US\$18.3 million from the sale, which was completed in September 2018, and paid a special dividend of 1.00 Singapore cent a share to shareholders using part of the sales proceeds, some of which were also used to repay bank loans and for working capital.

The gain from the sale of SPL also shielded our bottom line last year from an impairment loss of US\$5.4 million for the winding down of Tong Chiang Group Pte. Ltd. and its three properties entities. We invested in this group of food companies in Year 2015 with a view to develop

"As an established distributor with a proven track record, we expect to continue in this trade for many more years and remain an integral part of the international supply chain for chipmakers, original equipment manufacturers and major electronic brands."

an additional income stream and enhance our overall profitability. Unfortunately, three years later, we ended up with an impairment loss for our 21% stake after a creditor of Tong Chiang Group Pte. Ltd. sought to wind up its entire business.

In appreciation of your support for us in Year 2018, we have proposed a final cash dividend of 0.46 Singapore cent a share. Together with an interim payout of 0.40 Singapore cent and a special interim dividend of 1.00 Singapore cent a share for the SPL divestment, the total amount of dividend payout from our FY2018 financial performance is 1.86 Singapore cents a share. This is higher than the total dividend of 0.75 Singapore cent a share for FY2017.

Outlook

Even as we continue to navigate our way forward, we have to contend with an uncertain global macroeconomic outlook for Year 2019. The ongoing trade dispute between the United States and China has already taken a toll on the world's two largest economies and on global business sentiment, prompting companies to reconsider expansion plans for fear of being caught out if the spat worsens.

While the outlook for the foreseeable future appears challenging, we remain fully committed to our core electronic components distribution business. As I had said at the start of this chairman's statement, we have encountered and survived numerous setbacks in the semiconductor industry over the past three decades. With your support, I am hopeful we will ride out our current challenges and see better days ahead.

Indeed, there will always be demand for semiconductors as these are the building blocks for virtually all electronic devices. As an established distributor with a proven track record, we expect to continue in this trade for many more



Dato' Seri Dr. Derek Goh Bak Heng ^{BBM}
Executive Chairman & Group CEO

years and remain an integral part of the international supply chain for chipmakers, original equipment manufacturers and major electronic brands.

For this reason, we are reviewing our growth strategies with a view to enhancing our value proposition as a distribution intermediary between chipmakers and manufacturers of electronic end-products. The review will also examine how we can further diversify our income streams to enhance overall profitability. Some of the ideas that have emerged from this review have already been put into motion.

As announced on 30 January 2019, our subsidiary Serial Microelectronics (HK) Limited has formed a joint venture with LSD Science and Technology (Hong Kong) Co., Limited ("Lierda HK") for the purpose of distributing semiconductors and electronic components in Hong Kong and China. This collaboration with Lierda HK, a subsidiary of China-listed Lierda Science and Technology Group Co., Ltd, is in line with our objective to deepen our presence in these two markets. The joint venture is expected to have a positive impact on our financial performance in 2019.

New Income Streams

At the same time, we will continue to look for promising businesses to invest in. In November last year, we became a shareholder of Indonesia-listed PT Sentral Mitra Informatika ("PT SMI"), a provider of managed print services, after we swapped our convertible bond

issued by PT SMI into shares, which started trading on the Development Board of the Indonesia Stock Exchange on 28 November 2018. The conversion gave us a 20% stake in PT SMI.

This is our second investment in the managed print services business. We first ventured into this space in May 2017 when we acquired a 70% stake in Print-IQ Singapore Pte Ltd. Under the managed print services business model, companies outsource their printing, scanning and copying functions, as well as the management of the equipment for such services. This reduces operating costs and wastage.

Acknowledgements

On behalf of the board of directors, I would like to thank all our customers, business partners, shareholders and employees for your trust, support and hard work. Clearly, Year 2018 was a tough year for us. I appeal for your continued support as we seek to forge ahead for the rest of Year 2019 and beyond.

I would also like to extend my condolences to the family of Mr Goi Kok Neng Ben, who passed away on 3 February 2019. Ben joined us as a Non-Executive Director in April 2013 and had been dutifully contributing to Serial System as a board member all these years. He is dearly missed by everyone at Serial System.

Operations and Financial Review

While the Group ended FY2018 with higher sales, profit margins and earnings, it had its mind on business diversification and cost control all through the year. The need for multiple income streams and being nimble were top priorities amid a highly competitive operating environment for distribution.

Revenue

After a strong first half, momentum in the second half of FY2018 slowed notably as the Sino-US trade dispute and Texas Instruments' ("TI") decision to cease ties with Serial System took their toll on business. As a result, the Group's revenue for the full year grew merely 2% from the previous year to US\$1.53 billion.

Revenue from electronic components distribution business edged up 2% to US\$1.47 billion, driven by higher contributions from operations in Taiwan, South Korea and China. Turnover from these three markets rose 43%, 24% and 7% respectively, boosted by higher demand for certain product lines from both new and existing customers.

Revenue from consumer products distribution business slipped 1% to US\$55.0 million as lower sales in Singapore and Indonesia in the final quarter of FY2018 offset higher contributions from Malaysia and from Print-IQ Singapore Pte. Ltd..

Profit Margins

Overall gross profit margin increased to 7.8%, the highest in four years, from 7.0% as the Group focused on more lucrative electronic components and consumer products. Net profit margin doubled to 1.2% from 0.6%.

Other Operating Income

Other operating income rose four-fold to US\$24.5 million from US\$6.0 million, driven mainly by a one-off gain of US\$18.3 million from the sale of the Group's entire 27.34% stake in SPL Holdings (Australia) Pty Ltd ("SPL").

Higher finance income and a one-off fair value gain of US\$0.9 million arising from the convertible bond prior to its conversion to a 20% equity stake in PT Sentral Mitra Informatika also lifted other operating income.

Expenses

Distribution expenses increased 9% to US\$53.3 million due to higher staff and related costs, sales commission expenses, freight and handling charges, and storage charges for the electronic components distribution business.

Administrative expenses rose 33% to US\$17.3 million. These included legal and professional fees of US\$3.1

million for the Group's proposed listing of its 91%-owned subsidiary Serial Microelectronics (HK) Limited in Hong Kong. The listing application lapsed on 8 November 2018. Higher staff-related costs associated with the electronic components distribution business also contributed to the increase in administrative expenses.

Finance expenses increased 39% to US\$14.3 million as the Group used non-recourse trade receivables facilities and other trade facilities to fund working capital requirements for the electronic components distribution business. Higher interest rates across all trade facilities also drove up finance expenses.

Other operating expenses went up 46% to US\$33.1 million. These included an allowance of US\$5.4 million for impairment losses on Tong Chiang Group Pte. Ltd. and its three property entities, and higher impairment losses on goodwill arising from the acquisition of consumer products distribution subsidiaries, foreign exchange loss, fair value loss on financial assets, at fair value through profit or loss and staff and related costs.

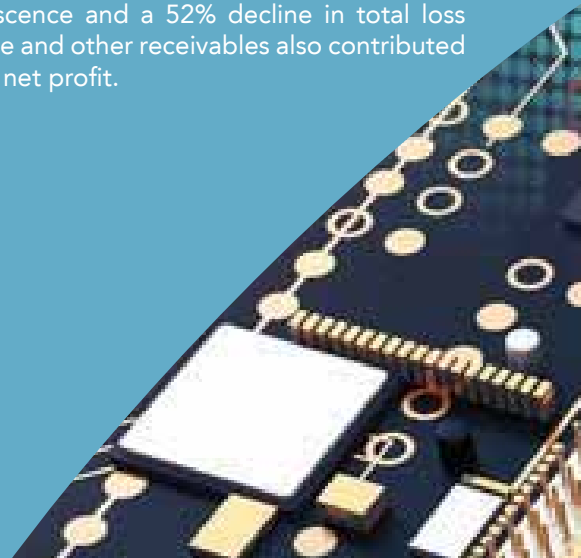
Associated Companies and Joint Venture

Share of losses in associated companies amounted to US\$0.3 million compared to US\$0.4 million in the previous year. The decrease was due to a smaller loss of US\$0.1 million reported by Bull Will Co., Ltd, which incurred a bigger loss of US\$0.6 million in FY2017.

The Group's share of loss in its 27.5%-owned joint venture, Musang Durians Frozen Food (M) Sdn. Bhd., increased to US\$0.5 million from US\$0.03 million as sales were not sufficient to cover operating expenses.

Net Profit

With higher gross profit margins and a one-time gain of US\$18.3 million from the divestment of SPL, the Group turned in a net profit after tax of US\$17.7 million, up from US\$9.6 million in FY2017. A US\$1.7 million write-back of inventory obsolescence and a 52% decline in total loss allowance on trade and other receivables also contributed to the increase in net profit.



Assets

As at 31 December 2018, the Group had US\$58.3 million in cash and cash equivalents, compared with US\$72.2 million as at 31 December 2017.

Trade and other receivables decreased by US\$42.3 million (net of factored trade receivables) following the reclassification of US\$70.2 million from trade receivables to financial assets, at fair value through profit or loss. Without the reclassification, trade and other receivables would have increased by US\$27.9 million, in line with higher sales of electronic components in Taiwan and South Korea and longer payment terms from customers in Hong Kong, China and South Asia. Average turnover days for trade receivables (including the reclassified amount of US\$70.2 million) increased to 54 from 51.

Inventories decreased by US\$23.5 million due to lower inventory holdings in Hong Kong as the Group adopted a more cautious stance amid the trade tensions between China and the United States. The consumer products distribution business also held less inventories in anticipation of lower sales in Indonesia and Singapore.

Investments in associated companies decreased by US\$14.6 million due to the disposal of SPL, impairment losses of US\$5.4 million for Tong Chiang Group Pte. Ltd. and its three property entities, and a net currency translation loss of US\$0.4 million resulting from the translation of net investments in associated companies denominated in foreign currencies. There was an addition of US\$2.7 million arising from the conversion of a

convertible bond to a 20% equity stake in PT Sentral Mitra Informatika.

Property, plant and equipment decreased by US\$2.3 million mainly due to depreciation charges amounting to US\$2.9 million and a currency translation loss of about US\$1.2 million. Addition to property, plant and equipment amounted to US\$1.9 million.

Intangible assets decreased by US\$4.7 million mainly due to impairment losses amounting to US\$4.5 million provided on goodwill arising from the acquisition of consumer products distribution subsidiaries.

Liabilities

Trade and other payables decreased by US\$8.8 million as the Group's Hong Kong electronic components distribution subsidiary made fewer purchases. Average payment days for trade payables declined to 29 from 35.

Borrowings declined by US\$24.5 million due to lower bank borrowings by electronic components distribution subsidiaries in Hong Kong and Singapore. Instead of taking more bank loans, the Group tapped internal funds to finance working capital requirements.

Share Capital

Serial System's number of issued shares as at 31 December 2018 was 895,841,914 (excluding treasury shares of 9,946,000), unchanged from the same period a year earlier.



Extensive Distribution Network



One of the largest Asian geographical presence (in terms of offices)
in the electronic and semiconductor distribution industry



1,000 employees
in Asia Pacific



30 Offices and
Representations



13 Warehouses

Electronic Components Distribution

Product Line Cards



In Year 2017, Serial System consolidated its key consumer products distribution group in Singapore, beginning with Swift-Value Business Pte. Ltd., Achieva Technology Pte Ltd and Serial I-Tech (Far East) Pte. Ltd. Housing these companies under a single entity in the same building enables greater efficiency in business operations and creates synergy with their combined business networks, regional presence and product offerings.



Swift-Value Business Pte. Ltd.

Swift-Value Business Pte. Ltd. ('Swift-Value'), a wholly owned subsidiary of the Group, is a leading distributor of printer accessories, primarily ink and toner cartridges. It is the authorized distributor of Hewlett-Packard (HP), Epson and Canon products and also the authorized reseller of products from major brands such as Fuji Xerox, Samsung, Oki and Panasonic.

In Singapore, Swift-Value is the largest distributor of HP printer products, with a market share of more than 45%. With its extensive reach, efficient warehousing operation and reliable sales personnel, Swift-Value enjoys close relationships with hundreds of customers, ranging from heartland operators to large retail superstores such as Popular. By providing fast and value-added services, Swift-Value is able to achieve customer loyalty and offers an extensive and consistent network to its suppliers and partner brands.

Consumer Products Distribution



Print-IQ Singapore Pte. Ltd.

Print-IQ Singapore Pte. Ltd. ("Print-IQ"), a 70% owned subsidiary of the Group is a Singapore-based managed print services company with a keen eye on office automation. Well versed in HP Managed Print Services (MPS) methodology, Print-IQ consultants have helped many businesses realise the benefits of adopting MPS. These include cost savings, reduced wastage, and productivity gains in the form of more efficient use of resources for other business operations.

Print-IQ has been able to deliver innovative projects in the government, education as well as commercial segments. In Year 2018, Print-IQ was accredited the HP Trailblazer 2018 (Asia Pacific) award in recognition of its strong knowledge, consultancy and application of HP MPS thought leadership. In the same year, Print-IQ also clinched the Fastest Growth 2018 (SEA) award, marking the acceptance and adoption of HP's A3 print fleet in Southeast Asia. This award is particularly encouraging considering that HP's print fleet was introduced only in Year 2017.

Print-IQ aims to deliver more innovative projects across various segments. Its vision is to bring innovation and leadership in HP MPS methodology across Southeast Asia.



Achieva Technology

Achieva Technology, with offices in Singapore (Achieva Technology Pte Ltd) and Malaysia (Achieva Technology Sdn. Bhd.), is a wholly owned subsidiary of the Group distributing consumer and enterprise information technology products.

Achieva Technology's network in these two countries gives it an extensive reach into multiple market segments. This provides suppliers,

including established brands such as Intel, Asus and AMD, an easy solution for extensive distribution of their products in these countries.

Achieva Technology works closely with partner brands to fulfil their distribution needs and provides a one-stop solution for their customers. In e-commerce, Achieva Technology maintains key channels on online platforms such as Qoo10 and Lazada, giving it a strong presence in the region.

Serial I-Tech (Far East) Pte. Ltd.

Serial I-Tech (Far East) Pte. Ltd. ("SIFE"), a wholly owned subsidiary of the Group, specialises in the distribution of information technology and photo products. Headquartered in Singapore, it distributes a wide range of globally-renowned brands including Marumi, Benro and Luxa. SIFE provides a convenient gateway for suppliers looking to establish a foothold in Singapore.

Other Businesses

Serial Multivision Pte. Ltd.

Serial Multivision Pte. Ltd. ("Serial Multivision") is a wholly owned subsidiary of the Group that specialises in hospitality and healthcare solutions.

The hospitality and healthcare solutions are built based on a core venue management application suite known as Venue360. Premise operators are empowered via technology specifically tailored for their needs, complementing existing systems such as their backend ERPs. Serial Multivision's Venue360 is developed with extensive input from ground-level operation staff, making it not only real and practical, users are able to improve their service offerings to a new level ahead of their competitors.

Serial Multivision's leading-edge modules within Venue360, such as the Intelligence Room Infotainment Solution and the Digital



Touch Medical Pad eMos

Media Content Management system, are part of its Venue Management Suite, which let organisations automatically parse customer and employee feedback to measure productivity and effectiveness and also alert the operators in early stages of any shortcomings on the ground, allowing immediate remedies and actions to be put in place and should it be necessary to escalate any matters, the enhanced Incident Tracking and reporting system allows health-related incidents to be reported on a common platform and streamlines hospital operations so that staff are better equipped to handle critical issues.



iPad Touch for Nurse/Patient at Khoo Teck Puat Hospital



Incident Tracking and Quality Review



Inventory Management System

Another key solution is Serial Multivision's flagship electronic Meal Ordering System (eMOS). Developed for food service management in the healthcare industry, eMos seamlessly combines hospital and kitchen operations with inputs from the nutrition and dietetics offices, providing a digital knowledge base. Users can easily access information via a mobile menu and get immediate updates on topics such as clinical nutritional care and food allergies. eMOS provides customised HL7 interfaces with real-time information to support patients' nutritional care and meal delivery. Serial Multivision also extends the software for use by third party healthcare caterers such as SFS (Singapore Food Services) to consolidate and manage orders at a hospital site to the caterers' remote kitchen seamlessly.

Serial Multivision's current clients include Khoo Teck Puat Hospital, Ng Teng Fong General Hospital, Jurong Community Hospital, Changi General Hospital, Institute of Mental Health, St Andrew's Hospital, Gleneagles Hospital, Mount Elizabeth Orchard, Parkway East Hospital, Parkway Mount Elizabeth Novena, Yishun Community Hospital, Sengkang Hospital, Sengkang Community Hospital, Alexandra Integrated Health and Bright Vision Community Hospital.

Contract Sterilization Services Pte Ltd

Contract Sterilization Services Pte Ltd ("Contract Sterilization Services"), a wholly owned subsidiary of the Group, assembles and distributes medical devices. It offers a full range of standard and customised perfusion tubing packs. These products are marketed all over the Asia Pacific region and are the preferred choices of many leading hospitals.

Contract Sterilization Services utilises the best components from the United States and Europe, and customises the majority of its products to suit customers' stringent demands. The company is ISO 13485-certified and its perfusion products bear the coveted CE certification mark.

Contract Sterilization Services' reputation for quality and innovative designs is a result of consistent attention to materials, machining and manufacturing techniques. Its engineers and technicians work closely with customers and clinical consultants to provide the best solutions to complex problems and applications. It abides by the



Cleanroom Operation



Cleanroom Operation

principles of total quality management, from initial contact with clinical professionals to the delivery of sterile finished products that meet stringent requirements.

Contract Sterilization Services is strategically located near the Medtech Hub@Tulang. The Medtech Hub is a government initiative that aims to promote Singapore as Asia's medical hub.



*Customized Heart Lung Pack -
use in Cardiac Bypass Surgery*



*Angio- use in Interventional
Radiology*



Sterile Procedural Pack



Blood Cardioplegia

Bull Will Co., Ltd. (Taiwan Stock Code 6259)



Manufacturing Plants in China

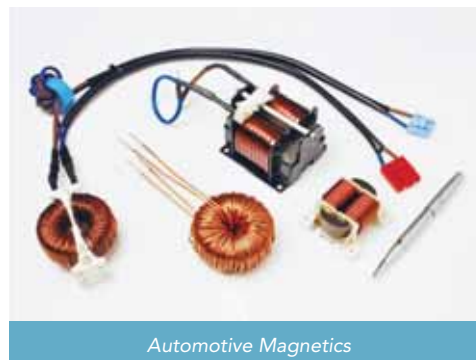
Bull Will Co., Ltd. ("Bull Will"), a Taiwan entity listed on the Over-The-Counter Securities Exchange in Taiwan, became an associated company after Serial System acquired a 29.3% equity interest in Year 2007. Serial System's current equity stake in Bull Will is 19.02%.

Bull Will, which started as a passive electronic components distributor, has over the years transformed itself into a company with capabilities in research and development, design and manufacturing of a full range of magnetic components for electronic products.

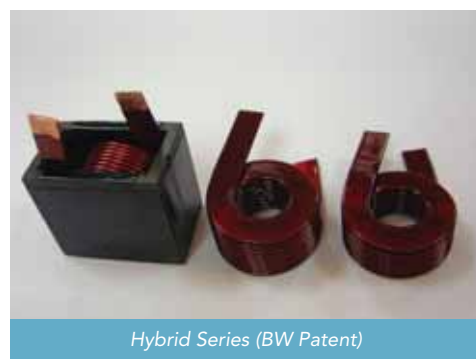
Bull Will's products include sensors, over-current protection devices, control systems and discrete components. These components are widely used in power supplies, LCD monitors, smartphones, notebooks, servers, air-conditioners, automotive, solar inverters and more.

Bull Will's vertical integration, production capacity and technical expertise enable it to quickly adapt to customers' requirements and achieve the best price, quality and delivery. It aims to be the leading supplier of magnetic, passive, electromechanical and discrete components with demand-creation capabilities for all tiers of customers in the electronic industry.

Headquartered in Taipei, Taiwan, Bull Will has two manufacturing plants in China and about 120 employees.



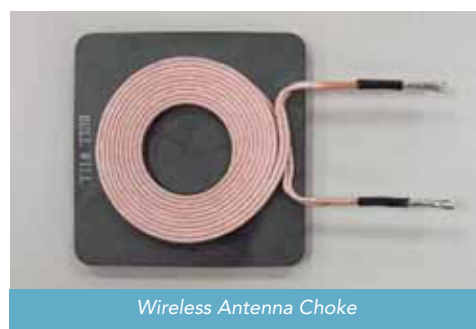
Automotive Magnetics



Hybrid Series (BW Patent)



Choke



Wireless Antenna Choke

Corporate Social Responsibility



Visit to Tai Pei Old Folks Home

Giving back to society is a trait deeply imbued in Serial System's culture as we strongly believe in being a responsible corporate citizen. Our Corporate Social Responsibility ("CSR") efforts have a broad reach, targeting the elderly, the poor and needy, as well as areas like medical, education, youth development, arts, culture and heritage.

Our CSR beneficiaries in Year 2018 included citizens' councils, the PAP Community Foundation, the Stroke Support Station Ltd, the Halogen Foundation Singapore and Sian Chay Medical Institution. Altogether we contributed S\$373,000 (approximately US\$276,000) to various causes and organisations in Singapore.

The Elderly, Poor and Needy

For more than two decades now, we have been celebrating Lunar New Year every year with the senior citizens of Tai Pei Old Folks Home, bringing them "goody" bags, red packets and festive cheer.

During the year in review, Serial System donated a total of S\$157,000 (US\$117,000) to various charitable foundations/ programmes such as the five Community Development Councils, People's Association Community Centres, and Cheng Hong Welfare Service Society.



Tai Pei Old Folks Home - Distribution of Goody Bags, Red Packets and Festive Cheer



Singapore Association for Mental Health Services 50th Anniversary Charity Dinner

Medical, Education and Youth Development

From Year 2017, Serial System pledged to donate S\$100,000 (US\$73,000) annually to Sian Chay Medical Institution over a period of 10 years, amounting to S\$1,000,000 (US\$724,000), to help low-income families from all races and religion by sponsoring their Traditional Chinese Medicine consultations and treatments. The second tranche of S\$100,000 (US\$73,000) was disbursed in Year 2018.

In Year 2018, we donated S\$20,000 (US\$15,000) to Stroke Support Station ("S3") Ltd to facilitate the rollout of new S3 technologies and therapies that can enhance chances of recovery for stroke victims with financial challenges and help them recuperate faster. The fund aims to provide post-stroke care to stroke survivors and equip their caregivers with skills to help them re-integrate with society and the workforce. A donation of S\$13,000 (US\$10,000) was also made to the Singapore Association for Mental Health to reach out to youths with mental health conditions.

We also donated S\$25,000 (US\$18,000) to the World Learner Student Exchange Programme 2018, an educational collaboration between nEbO (the junior membership arm of NTUC) and Best World International Limited to host students from rural areas of Sichuan, China for a short cultural immersion programme in Singapore.

We donated S\$10,000 (US\$8,000) to the Halogen Foundation Singapore, which aims to uplift youths from poor and marginalised families through leadership and entrepreneurship programmes so that they can have a better head-start in life and build their careers.



North East Community Give Back Golf & Appreciation Dinner 2018

Other Contributions

In addition to supporting the poor and needy and various medical, education and youth development causes, Serial System also donated more than S\$48,000 (US\$35,000) in Year 2018 to other charitable funds, community programmes and organisations in Singapore. Included in the S\$48,000 was an amount of S\$30,000 (US\$22,000) for Teo Chew Poit Ip Huay Kuan's ASEAN Teochew Entrepreneur Award. This biennial award seeks to build a platform that not only creates an international network for business opportunities but also cultural and social engagement for Teochews across the globe.

Financial Calendar and Corporate Information

24 February 2018

Announcement of Fourth Quarter and Financial Year 2017 Results

06 April 2018

Release of Annual Report 2017

28 April 2018

Annual General Meeting 2018 / Extraordinary General Meeting

29 April 2018

Announcement of First Quarter 2018 Results

31 May 2018

Payment of 2017 Final Cash Dividend

13 Aug 2018

Announcement of Second Quarter and Half Year 2018 Results

17 September 2018

Payment of 2018 Interim Cash Dividend

19 October 2018

Payment of 2018 Special Interim Cash Dividend

05 November 2018

Announcement of Third Quarter and Nine Months 2018 Results

28 February 2019

Announcement of Fourth Quarter and Financial Year 2018 Results

08 April 2019

Release of Annual Report 2018

29 April 2019

Annual General Meeting 2019

31 May 2019

Payment of 2018 Final Cash Dividend (subject to Shareholders' approval at Annual General Meeting 2019)

Board of Directors

Dr. Derek Goh Bak Heng
(Executive Chairman & Group CEO)
Mr. Teo Ser Luck
(Non-Executive Independent Deputy Chairman)
Mr. Tan Lye Heng Paul
(Lead Independent Director)
Mr. Ravindran s/o Ramasamy
(Independent Director)
Mr. Ng Cher Yan
(Independent Director)

Audit Committee

Mr. Tan Lye Heng Paul (Chairman)
Mr. Ravindran s/o Ramasamy
Mr. Ng Cher Yan

Nominating Committee

Mr. Ng Cher Yan (Chairman)
Mr. Tan Lye Heng Paul
Mr. Ravindran s/o Ramasamy

Remuneration Committee

Mr. Ravindran s/o Ramasamy (Chairman)
Mr. Tan Lye Heng Paul
Mr. Ng Cher Yan

Serial System Employee Share Option Scheme 2014

Mr. Ravindran s/o Ramasamy (Chairman)
Mr. Tan Lye Heng Paul
Mr. Ng Cher Yan
Dr. Derek Goh Bak Heng

Company Secretary

Mr. Alex Wui Heck Koon

Registered Office

8 Ubi View #05-01
Serial System Building
Singapore 408554

Group Website

www.serialsystem.com

Registrar & Share Transfer Office

B.A.C.S. Private Limited
8 Robinson Road
#03-00 ASO Building
Singapore 048544

Auditors

Moore Stephens LLP
Public Accountants and
Chartered Accountants
10 Anson Road #29-15
International Plaza
Singapore 079903
Audit Partner : Mr. Neo Keng Jin
(appointed in Year 2016)

Principal Bankers

- Bank of China (Hong Kong) Limited
- BNP Paribas
- China Construction Bank (Asia) Corporation Limited
- CTBC Bank Co., Ltd
- DBS Bank Ltd

- Hang Seng Bank Limited
- Industrial and Commercial Bank of China Limited (Asia)
- KGI Bank
- Malayan Banking Berhad
- RHB Bank Berhad
- Shanghai Commercial Bank Limited
- Standard Chartered Bank (Hong Kong) Limited
- Sumitomo Mitsui Banking Corporation
- Taichung Bank
- Taipei Fubon Bank
- United Overseas Bank Limited

Board Of Directors



Dato' Seri Dr. Derek Goh Bak Heng ^{BBM}
Executive Chairman & Group CEO

Dr. Derek Goh Bak Heng founded Serial System as a sole proprietorship in 1988, incorporated Serial System Ltd in 1992 and was the founding Chairman and CEO when the Company was listed in 1997.

Dr. Goh is the Executive Chairman and Group CEO of Serial System Ltd with overall management responsibilities for the Group. As Executive Chairman, Dr. Goh leads the Board in charting the future direction for the Group.

In 1996, Dr. Goh won the "Entrepreneur of the Year Award", organised by the Rotary Club of Singapore and the Association of Small and Medium Enterprises, supported by the Trade Development Board. In 1997, Dr. Goh was elected the National President of JCI Singapore and was conferred the Singapore Youth Award (Individual) for entrepreneurship, the nation's highest honour for youths. In 1999, Dr. Goh was conferred the ASEAN Best Young Entrepreneur Award 1999 by the ASEAN Secretariat, and the World Association of Small and Medium Enterprises (WASME) Special Honour Award by the World Association of Small and Medium Enterprises on 29 March 2000. In 2004, Dr. Goh was awarded the Public Service Medal by the President of the Republic of Singapore and in 2010, the Public Service Star Medal (Bintang Bakti Masyarakat) on the National Day Honours 2010. In 2010, Dr. Goh won the "Asia Pacific Entrepreneurship Awards 2010 Entrepreneur of the Year" organised by Enterprise Asia and APF Group Pte Ltd and in 2011, he won the Ernst & Young Entrepreneur Of The Year® 2011 Singapore Award for the Electronic Components Distribution Category. Dr. Goh was appointed Adjunct Professor, Faculty of Business and Design for Swinburne University of Technology Sarawak Campus in Malaysia since 1 September 2013. In 2014, Dr. Goh was elected the President of JCI Senators of South East Asian Nations. In 2015, Dr Goh was awarded the International-Singapore ASEAN Leading Brand International Entrepreneur of the Year at the ASEAN Outstanding Business Award 2015 and was named the "UN Asia Pacific Most Prominent Entrepreneur" co-organised by the Trade and Industry Association ("TIAS") Singapore and the United Nations ("UN") Association of Singapore. He was also awarded one of the "Top Outstanding Leaders in Asia 2015" in the Asia Corporate Excellence & Sustainability Awards 2015 ("ACES").

As at 28 March 2019, Dr. Goh holds 355,140,070 shares (39.64%) in Serial System Ltd. Dr. Goh is a substantial shareholder of Serial System Ltd.



Teo Ser Luck
Non-Executive Independent Deputy Chairman

Mr. Teo Ser Luck is an entrepreneur and Singapore Member of Parliament. He was a former Minister of State in the cabinet and a Mayor. Now in the private sector, he has started a few of his own ventures and building others. He also chairs and advises a few listed companies. Ventures of his own are varied and mostly technology related in the areas of finance, education, food, hardware, general commodities, sports and fitness, event management, and other sectors. Mr. Teo is also currently an adviser to the Institute of Chartered Accountants of Singapore (ISCA) and Singapore Fintech Association.

Mr. Teo spent 15 years in private sector before being elected as a member of parliament and appointed as a full-time political office holder for 11 years. He returned to the private sector in July 2017 and remains as a Member of Parliament.

Apart from Serial System Ltd, Mr. Teo is also Non-Executive and Independent Director of SGX-listed BRC Asia Limited and United Engineers Limited.

Mr. Teo graduated with an Accountancy degree from the Nanyang Technological University (NTU) and began his career as an auditor. Throughout his private sector career, he has taken on management positions as head of sales, marketing, business operations before progressing to lead and oversee companies as Regional Director, General Manager and Managing Director of multi-national operations in the Asia Pacific. He has worked in Hong Kong, China, Thailand, India and has helped to start companies. Prior to politics, Mr. Teo was overseeing DHL Express (Singapore) Pte Ltd.

Mr. Teo was elected Member of Parliament for Pasir Ris-Punggol GRC in May 2006 and was appointed as Parliamentary Secretary in the Ministry of Community Development, Youth and Sports. He was subsequently promoted and concurrently assumed responsibility in the Ministry of Transport and appointed as the Mayor of the North East District. After the General Election in 2011, Mr. Teo was promoted and appointed as the Minister of State for Trade and Industry overseeing entrepreneurship, the Small and Medium Enterprises (SME), consumer protection, and trade relations with the region, including China. He was the chairman of Singapore-Shandong Bilateral Business Council and vice chairman of the Singapore-Jiangsu Bilateral Business Council. He was instrumental in creating the start-up eco-system in Launchpad@one north. Mr. Teo was the Minister of State for Manpower overseeing enterprise and industry development and productivity, Lean Enterprise Development implementation in businesses, foreign workers, rank and file workers and developing progressive workplaces. He was also the coordinating Chairman of the Mayors Committee.

For his achievements, Mr. Teo was recognised as a young global leader by the World Economic Forum for his contribution to the business and community services sectors. He also received the Outstanding Young Alumni Award and subsequently received the outstanding alumni award from his alma mater (NTU) for continuing to make a difference in public service. While in the private sector, he has also received accolades as a global outstanding manager in business and operational excellence.

Mr. Teo was instrumental in leading Singapore's successful bid for the inaugural Youth Olympic Games (YOG) that was held from 14 to 26 August 2010. He was also the Advisor to the Singapore 2010 YOG Organising Committee and the Mayor for the Youth Olympic Village.



Tan Lye Heng Paul
Non-Executive & Lead Independent Director

Mr. Tan Lye Heng Paul joined the Board of Directors on 16 June 2011. He is currently the Lead Independent Director, Chairman of the Audit Committee and a member of the Nominating Committee and Remuneration Committee.

Apart from Serial System Ltd, Mr. Tan is also Non-Executive and Independent Director of SGX-listed Second Chance Properties Ltd and China Sunsine Chemical Holdings Ltd.

Mr. Tan holds an MBA from the University of Birmingham in the United Kingdom. He is currently the managing director of CA TRUST PAC, a fellow member of the Institute of Singapore Chartered Accountants, the Association of Chartered Certified Accountants and a member of Singapore Institute of Accredited Tax Professionals Limited and Singapore Institute of Directors.

As at 28 March 2019, Mr. Tan holds 350,000 shares (0.04%) in Serial System Ltd.



Ravindran s/o Ramasamy
Non-Executive & Independent Director

Mr. Ravindran s/o Ramasamy joined the Board of Directors on 14 August 2001. He is currently the Chairman of the Remuneration Committee and a member of the Audit Committee and Nominating Committee.

Mr. Ravindran holds a Master of Law from the National University of Singapore and is a partner with Colin Ng & Partners.



Ng Cher Yan
Non-Executive & Independent Director

Mr. Ng Cher Yan joined the Board of Directors on 28 March 2017. He is currently the Chairman of the Nominating Committee and a member of the Audit Committee and Remuneration Committee.

Apart from Serial System Ltd, Mr. Ng is also Non-Executive and Independent Director of SGX-listed Samko Timber Limited, Vicplas International Ltd and MoneyMax Financial Services Ltd. He is also a Non-Executive Director of Taiwan-listed Bull Will Co., Ltd.

Mr. Ng graduated from the National University of Singapore in 1983 with a Bachelor of Accountancy degree and is also qualified as a Chartered Accountant, Australia. He is currently a practising chartered accountant with Plus LLP, and a fellow member of the Institute of Singapore Chartered Accountants and a member of the Institute of Chartered Accountants in Australia.

For his various community services, Mr. Ng was awarded the prestigious Pingat Bakti Masyarakat or the Public Service Medal in 2007 and the Bintang Bakti Masyarakat or the Public Service Star Medal in 2016.

As at 28 March 2019, Mr. Ng holds 150,000 shares (0.02%) in Serial System Ltd.

Management Team



Derek Goh Bak Heng
Group Chief Executive Officer

As Group Chief Executive Officer, Derek leads the management team in executing strategies to achieve the goals set by the Board of Directors.



Alex Wui
**Group Chief Financial Officer &
Group Company Secretary**

Alex Wui joined Serial System Ltd in August 2000 and was appointed Group Financial Controller in August 2006. He was re-designated as Group Chief Financial Officer in April 2011.

As Group Chief Financial Officer, Alex is responsible for the Group's accounting, finance, treasury and tax functions. As Group Company Secretary, he ensures the Group complies with all established procedures and relevant statutes and regulations.

Apart from Serial System Ltd, Alex is also a Non-Executive and Lead Independent Director of SGX Catalyst-listed Jason Holdings Limited.

Alex is a Chartered Accountant with corporate advisory and public accounting experiences gained with an international accounting firm. He holds a Bachelor of Accountancy degree with Honours from the Nanyang Technological University and a MBA from the Warwick Business School in the United Kingdom.



Sean Goh
**Group Senior Vice President &
Chief Operating Officer, Consumer Products
Distribution**

Sean Goh joined Serial Microelectronics Pte Ltd in June 2004 as its Sales Engineer. He was appointed Vice President of Regional Marketing in October 2009 and Senior Vice President of Corporate Planning, Development and Regional Marketing in July 2011. Sean Goh was promoted to Group Senior Vice President and Chief Operating Officer, Consumer Products Distribution in July 2018.

Sean is in-charge of marketing, planning and development activities for the Group and oversees the Group's consumer products distribution business.

Sean holds a Bachelor of Engineering degree with Honours from the Nanyang Technological University.



Ng Teck Cheng
**Senior Vice President
Operations & Asset Management**

TC Ng joined Serial Microelectronics Pte Ltd in June 2004 as its Operations and Logistics Director. He was appointed Senior Vice President, Operations and Asset Management in October 2009.

TC is in-charge of driving optimum inventory turns, minimum inventory obsolescence, supply chain and logistics process/operation efficiency and security for the Group's inventories.

TC held senior level positions at Texas Instruments Singapore and Kintetsu World Express prior to joining the Group. He holds a Bachelor of Science degree from the National University of Singapore and a Master of Business in Information Technology from RMIT.



Kim Sang Yeol
President
Serial Microelectronics Korea Limited
South Korea

SY Kim was appointed President of Serial Microelectronics Korea Limited ("SMKR") in May 1999.

As Country Head of SMKR, SY oversees the Group's electronic components distribution business in South Korea.

SY has over 33 years of experience in the semiconductor and technology field and had held senior level positions at Space Semiconductor Trading Limited and Alpha Technology Industries Limited.

SY holds a Bachelor of Electronics Engineering degree from KwangWoon University in South Korea.



William Low
Vice President
Serial Microelectronics Pte Ltd
South Asia

William Low joined Serial Microelectronics Pte Ltd in August 2013 as its Vice President.

William oversees the Group's electronic components distribution business in South Asia.

William has over 33 years of experience in the electronic and semiconductor industry and had held senior level positions at Excelpoint Systems and Dovatron International Inc.

William holds a Diploma in Production Engineering from Singapore Polytechnic and a Manufacturing Consultant certificate from SANNO Institute of Business Administration, Japan. He is also a qualified practitioner of MTMII from the MTM Association, Sweden.



Lawrence Ho
President
Serial Microelectronics (HK) Limited
Hong Kong & China

Lawrence Ho was appointed President of Serial Microelectronics (HK) Limited ("SMHK") in July 2001.

As Country Head of SMHK, Lawrence oversees the Group's electronic components distribution business in Hong Kong and China.

Prior to joining SMHK, Lawrence owned Innwave Technology Ltd, a company engaged in trading and distribution of electronic components in Hong Kong.

Lawrence holds a Bachelor of Electronics Engineering degree from Hong Kong Polytechnic University in Hong Kong.



Jesse Jeng
President
Serial Microelectronics Inc.
Taiwan

Jesse Jeng was appointed President of Serial Microelectronics Inc. ("SMTW") in January 2007.

As Country Head of SMTW, Jesse oversees the Group's electronic components distribution business in Taiwan.

Jesse has over 32 years of experience in the electronic trading and distribution industry, including 4 years at Chander Electronics Corp and 11 years at Arrow Electronics (Taiwan) Ltd.

Jesse holds a Bachelor of Electrical Engineering degree from John's University and a Physics degree from Tamkang University in Taiwan.

Corporate Governance Report

Both Board of Directors (the “**Board**”) and Management are committed to high standards of corporate governance to protect the interests of its shareholders and enhance long-term shareholders’ value.

This report describes the Company’s corporate governance processes, activities, and structures that were in place during the financial year ended 31 December 2018 (“**FY2018**”) with specific reference to The Code of Corporate Governance 2012 (the “**Code**”) and relevant sections of the Listing Manual of the Singapore Exchange Securities Trading Limited (the “**SGX-ST**”).

On 6 August 2018, the Monetary Authority of Singapore issued a revised Code of Corporate Governance (the “**2018 Code**”) and accompanying Practice Guidance. The 2018 Code supersedes and replaces the Code and will apply to Annual Reports covering financial years commencing from 1 January 2019. The Group will review and set out the corporate practices in place to comply with the 2018 Code, where appropriate, in the next Annual Report.

1. Board Matters

The Board’s conduct of its affairs

Principle 1: Effective Board to lead and control the Company

Guideline 1.1: Board’s Role

The Board’s primary role is to protect and enhance the long-term shareholders’ value. Besides setting the overall strategic direction for the Group, the Board also provides entrepreneurial stewardship such as establishing goals for the Management and regularly monitoring the achievement of these goals.

The Board also monitors Management performance and oversees the processes for evaluating the adequacy of internal controls, financial reporting and compliance.

Guideline 1.2: Objective Decision Making

The Board exercises due diligence and independent judgement in dealing with the business affairs of the Group and are obliged to act in good faith and to take objective decisions in the interests of the Group

Guideline 1.3: Delegation of authority to Board Committees

For the effective execution of its responsibilities, the Board has delegated most of its functions to the various Board committees. These are the Audit Committee (“**AC**”), Nominating Committee (“**NC**”), and Remuneration Committee (“**RC**”). All the Board Committees are actively engaged and play an important role in ensuring good corporate governance in the Company and within the Group.

The Board is informed of the key matters discussed in each Board Committee meeting. At all times, the Board and the Board Committees have independent access to the Group Chief Executive Officer (“**Group CEO**”), members of the Management and the Company Secretary. There is a clear demarcation of responsibilities between the Board and the Management.

Please refer to Table 1 below - Board and Board Committees

1. Board Matters (continued)

The Board's conduct of its affairs (continued)

Principle 1: Effective Board to lead and control the Company (continued)

The composition of the Board and Board Committees throughout FY2018 is shown below:

Table 1: Board and Board Committees:

Name of Director	Date of appointment	Date of last re-election	Main Board		Audit Committee	Nominating Committee	Remuneration Committee
			Status	Position	Position	Position	Position
Derek Goh Bak Heng ^{(1) (2)}	26 October 1998	26 October 1998	Executive/ Non-independent	Executive Chairman & Group CEO	-	Member	Member
Teo Ser Luck	15 July 2017	28 April 2018	Non-Executive/ Independent	Non-Executive Deputy Chairman	-	-	-
Tan Lye Heng Paul	16 June 2011	28 April 2018	Non-Executive/ Lead Independent	Member	Chairman	Member	Member
Ravindran s/o Ramasamy	14 August 2001	28 April 2017	Non-Executive/ Independent	Member	Member	Member	Chairman
Ng Cher Yan	28 March 2017	28 April 2017	Non-Executive/ Independent	Member	Member	Chairman	Member
Goi Kok Neng Ben ⁽³⁾	27 April 2013	28 April 2018	Non-Executive/ Non-Independent	Member	-	-	-

⁽¹⁾ Appointed Group Managing Director on 1 March 2001 and is not subject to retirement by rotation pursuant to Serial System Ltd's Constitution.

⁽²⁾ Derek Goh Bak Heng stepped down from the Nominating Committee and Remuneration Committee on 18 March 2019.

⁽³⁾ Goi Kok Neng Ben was a director until his demise on 3 February 2019. He was the son of Goi Seng Hui, a substantial shareholder of Serial System Ltd.

Guideline 1.4: Meetings of Board and Board Committees

The Board meets at least four times in a year. Besides the scheduled Board meetings, the Board meets on an ad-hoc basis as warranted by particular circumstances. The Board and Board Committees may also make decision through circulating resolutions.

Please refer to Table 2 below - Attendance at Board and Board Committee Meetings.

Table 2: Attendance at Board and Board Committee Meetings in FY2018:

Name of Director	Board	Audit Committee	Nominating Committee	Remuneration Committee
Number of meetings held	6	4	1	1
Number of meetings attended:				
Derek Goh Bak Heng	6	NA	1	1
Teo Ser Luck	5	3 ⁽¹⁾	NA	NA
Tan Lye Heng Paul	6	4	1	1
Ravindran s/o Ramasamy	6	4	1	1
Ng Cher Yan	6	4	1	1
Goi Kok Neng Ben	6	2 ⁽¹⁾	NA	NA

NA – Not Applicable

⁽¹⁾ Attendance by invitation.

1. Board Matters (continued)

The Board's conduct of its affairs (continued)

Principle 1: Effective Board to lead and control the Company (continued)

Guideline 1.5: Internal guidelines on matters requiring Board approval

The Board continues to approve matters, which, under the Companies Act and SGX-ST's Listing Manual, require the Board's approval. Specifically, the Board has direct responsibility for decision making in the following:

- Joint ventures, acquisitions, and mergers
- Sales and purchases of shares in Serial System Ltd and its subsidiaries and associated companies, and other companies
- Capital expenditure exceeding S\$2.0 million (approximately US\$1.5 million)
- Disposal of assets exceeding S\$2.0 million (approximately US\$1.5 million)
- Borrowing exceeding S\$5.0 million (approximately US\$3.7 million)
- Interested person transactions for an amount equal to or more than S\$100,000 (approximately US\$73,000)
- Declaration of dividends by Serial System Ltd
- Appointment of Directors and Chief Executive Officer of Serial System Ltd

Guideline 1.6: Continuous training and development of directors

The Group CEO and Management conducts briefings to familiarise new directors with its business, operations and management structure. These briefings give directors an understanding of the Company's businesses to enable them to assimilate into their new roles and discharge their responsibilities effectively. Directors also meet with Management in order to understand more about the Company's businesses.

All directors are kept informed of updates and developments in relevant areas such as corporate governance, financial reporting standards and applicable rules and regulations. It is the Company's practice to enroll all incoming directors to appropriate courses which cover roles and responsibilities of directors for a listed company, so as to enable them to properly discharge their duties.

The Group CEO and Management are available at any directors' request to provide further explanations, briefings or information on any aspect of the Group's operations or issues.

The directors are continuously appraised of business trends and updates through the circulation of relevant news articles/reports.

Guideline 1.7: Letter to director on appointment

A formal letter of appointment shall be provided to every new director, indicating the duties and obligations under the Group's policies, processes and best practices in corporate governance. All directors have signed formal letters of appointment and/or service agreements with the Company.

2. Board composition and guidance

Principle 2: Independent element on the Board

Guideline 2.1: Independent element on the Board

Throughout the FY2018, the Board comprised one executive director, one non-independent non-executive director, and four independent non-executive directors, which made up two-thirds of the Board. This exceeds requirements under amendments to Rule 210(5)(c) of the SGX Listing Rules (Mainboard) (which will take effect from 1 January 2022), for independent directors to make up at least one-third of the Board.

Currently, the Board comprises one executive director and four independent directors.

Please refer to Table 1 – Board and Board Committees.

Guideline 2.2: Composition of independent directors on the Board

While the Chairman and the CEO is the same person, throughout FY2018, there was a strong independent element on the Board – independent directors made up two-thirds of the Board. This exceeds the guideline under the Code, which states that independent directors should make up at least half of the Board where the Chairman and the Chief Executive Officer are the same person.

Guideline 2.3: Independence of directors

The Board is guided by the definition of "independence" given in the Code in determining if a director is independent.

2. Board composition and guidance (continued)

Principle 2: Independent element on the Board (continued)

Each independent director is required to complete a declaration annually to confirm his independence based on the guidelines in the Code.

In addition, the NC has reviewed and confirmed that Tan Lye Heng Paul, Ravindran s/o Ramasamy, Ng Cher Yan and Teo Ser Luck are independent directors under the Code.

Guideline 2.4: Independence of directors who have served on the Board beyond nine years

In the interest of good corporate governance, the Board carries out rigorous review of the contributions and independence of directors who have served on the Board beyond nine years and if necessary, exercise its discretion to extend the tenures of these directors. Currently, Ravindran s/o Ramasamy has served as independent director of the Company for more than nine years. The NC has determined that Ravindran s/o Ramasamy remains independent in character and judgement, taking into account there were no relationships with management or substantial shareholders or circumstances which were likely to affect, or could appear to affect his independence. The Board also reviews the performance of Ravindran s/o Ramasamy and considers that he who had gained good understanding of the Group's business and operations will be able to continue to bring invaluable expertise, experience and knowledge to the Board. The NC and Board is therefore satisfied with his performance and continued independence.

Guideline 2.5: Composition and size of the Board

In determining the size, the Board maintains the view that there are sufficient directors to serve on the various committees without over-burdening them and making it convenient for them to discharge their responsibilities. As for composition, the Board is of the opinion that at least one-third of Board members should be independent and non-executive.

Please refer to Table 1 – Board and Board Committees.

Guideline 2.6: Competency of the Board

Each director has been appointed on the strength of his calibre, experience and stature and is expected to bring valuable range of experience and expertise to contribute to the development of the Group strategy and the performance of its business.

Guideline 2.7: Role of non-executive directors

To ensure non-executive directors are kept informed of complete and timely information, they have unrestricted access to Management. They also receive board briefings on prospective deals and potential acquisitions at an early stage before formal board approval is sought, and in circulation on the relevant information on latest Group's key business initiatives. The timely dissemination of information enables non-executive directors to constructively challenge and provide necessary areas of expertise to develop both the Group's short-term and long-term business strategies.

Guideline 2.8: Regular meetings of non-executive directors

During the year under review, the non-executive directors communicated among themselves, without the presence of the management as and when the need arose.

3. Chairman and Chief Executive Officer

Principle 3: Clear division of responsibilities and balance of power and authority

Guideline 3.1: Separate role of Chairman and CEO

The Board has decided that it would currently not be in the Group's interests to institute a separation in the role of the Chairman from that of the CEO, so as to ensure decision-making process of the Group would not be unnecessarily hindered. The Board views that in the best interests of the Group, Derek Goh Bak Heng should continue to be the Chairman of the Board and CEO of the Group for the current year.

Guideline 3.2: Roles and responsibilities of Chairman

Derek Goh Bak Heng is the Founder, Executive Chairman and Group CEO, playing a pivotal and instrumental role in developing the Group's businesses and providing the Group with strong leadership and vision. In addition to the day-to-day running of the Group, he is to ensure that each member of the Board and the Management work well together with integrity and competency. He also takes on a leading role in ensuring the Group's drive to achieve and maintain a high standard of corporate governance practices.

Derek Goh Bak Heng's performance and remuneration package are reviewed periodically by the NC and RC, respectively. As such, the Board is of the view that adequate safeguards are in place to ensure a good balance of power and responsibility.

3. Chairman and Chief Executive Officer (continued)

Principle 3: Clear division of responsibilities and balance of power and authority (continued)

Guideline 3.3: Appointment of lead independent director

The Board has appointed Tan Lye Heng Paul as the lead independent non-executive director to co-ordinate and lead the independent directors, and provide and enrich discussions and debate by the Board. He is the principal liaison on Board issues between the independent directors and the Executive Chairman. He is available to shareholders where they have concerns which contact through the normal channels of the Executive Chairman and Group CEO or Group Chief Financial Officer ("Group CFO") has failed to resolve or is inappropriate.

Guideline 3.4: Lead independent director to lead the independent directors to meet periodically

The independent directors, led by the lead independent director, meet amongst themselves without the presence of the other directors where the need arose, and the lead independent director will provide feedback to the Executive Chairman after such meetings.

4. Board Membership

Principle 4: Formal and transparent process for the appointment of directors to the Board

Guideline 4.1: NC membership and key terms of reference

Ng Cher Yan chairs the NC. Other members of the NC are Tan Lye Heng Paul, Ravindran s/o Ramasamy and Derek Goh Bak Heng. Derek Goh Bak Heng has stepped down as a member of the NC with effect from 18 March 2019.

The NC has its terms of reference. Specifically, it:

- determines the criteria for identifying candidates and reviewing nominations for the appointments as directors and CEO
- decides how the Board's performance may be evaluated and proposes objective performance criteria for the Board's approval
- assesses the effectiveness of the Board as a whole
- assesses the contribution by each individual director to the effectiveness of the Board
- re-nominates any director, having regard to the director's contribution and performance
- determines on an annual basis whether a director is independent
- decides whether a director is able to and has been adequately carrying out his or her duties as a director of the Group, particularly when the director has multiple board representations and
- identifies gaps in the mix of skills, experiences and other qualities required in an effective board so as to better nominate or recommend suitable candidates to fill the gaps

Guideline 4.2: Responsibilities of NC

Key responsibilities of the NC include making recommendations to the Board on relevant matters such as the process for evaluating the performance of the Board as a whole. It also ensures that directors appointed by the Board are subject to election by shareholders at the annual general meeting ("AGM") and that all directors are subject to re-election once every three years, if re-nominated by the NC. In this aspect, the NC recommended to the Board that Ravindran s/o Ramasamy and Ng Cher Yan, who will retire pursuant to Article 89 of Serial System Ltd's Constitution, be nominated for re-appointment at the forthcoming AGM on 29 April 2019.

A member of the NC holds office until the next AGM following his appointment and may, subject to the prior approval of the Board, be re-appointed to such office.

The NC held one meeting in FY2018 and the attendance by the members is tabulated in Table 2 – "Attendance at Board and Board Committee Meetings" above.

Guideline 4.3: NC to determine directors' independence

The NC is charged with determining the independence of the directors as set out under Guideline 2.3 and 2.4 above.

Guideline 4.4: Commitments of directors sitting on multiple boards

All directors are required to declare their board representations. When a director has multiple board representations and heavy principal commitments, the NC will consider whether the director is able to adequately carry out his duties as a director of the Company.

The NC has reviewed each director's external directorships, their principal commitments, as well as each director's attendance and contributions to the Board. Though some directors hold multiple directorships in non-Group entities, the NC is satisfied that these directors spent adequate time and attention to the Company's affairs and have discharged their responsibilities.

4. Board Membership (continued)

Principle 4: Formal and transparent process for the appointment of directors to the Board (continued)

Considering the composition and mix of the current board of directors, the Board is of the view that it is not necessary to stipulate the maximum number of listed company board representation which any director may hold, for the year under review. Nevertheless, the Board will annually examine the need for such policy to be implemented.

Guideline 4.5: Appointment of alternate directors
Currently, there is no alternate director on the Board.

Guideline 4.6: Process for the selection and appointment of new directors

The Company has in place a process for selecting and appointing new directors. This process includes, *inter alia*, an evaluation of the candidate's capabilities and how the candidate fits into the overall desired competency matrix of the Board. Short-listed candidates would be required to furnish their curriculum vitae stating in detail their qualification, working experience and employment history to enable the NC to assess the candidate's independence status and compliance with the Company's established internal guidelines.

Guideline 4.7: Information on directors

The profiles of the directors and their respective shareholdings in the Company are set out on pages 18 to 20 of this Annual Report. None of the directors hold shares in the subsidiaries of the Company, except for Derek Goh Bak Heng, who, by virtue of his interest of not less than 20% of the issued share capital of the Company, is deemed to have an interest in the subsidiaries of the Company.

Directors who are seeking re-appointment at the forthcoming AGM to be held on 29 April 2019 are stated in Guideline 4.2 above. The required disclosures under Rule 720(6) of the SGX Listing Rules (Mainboard) of Ravindran s/o Ramasamy and Ng Cher Yan who will be retiring and standing for re-election as non-executive independent directors of the Company are set out below:-

Name of retiring Director	Ravindran s/o Ramasamy	Ng Cher Yan
Date of appointment	14 August 2001	28 March 2017
Date of last re-appointment	28 April 2017	28 April 2017
Age	59	60
Country of principal residence	Singapore	Singapore
The Board's comments on this appointment (including rationale, selection criteria, and the search and nomination process)	The Board has considered the recommendation of the Nominating Committee and has assessed Ravindran s/o Ramasamy's requisite knowledge, capabilities and experiences to assume the responsibilities.	The Board has considered the recommendation of the Nominating Committee and has assessed Ng Cher Yan's requisite knowledge, capabilities and experiences to assume the responsibilities.
Whether appointment is executive, and if so, the area of responsibility	Non-Executive	Non-Executive
Job title (e.g. Lead ID, AC Chairman, AC Member etc.)	Independent Director, Chairman of Remuneration Committee and member of Audit and Nominating Committee	Independent Director, Chairman of Nominating Committee and member of Audit and Remuneration Committee
Professional qualifications	- LLB (Honours) from National University of Singapore - Master of Law from the National University of Singapore	- Bachelor of Accountancy degree from National University of Singapore - Passed professional year for Chartered Accountants, Australia. - Fellow member of the Institute of Singapore Chartered Accountants - Member of the Institute of Chartered Accountants in Australia

4. Board Membership (continued)

Principle 4: Formal and transparent process for the appointment of directors to the Board (continued)

Any relationship (including immediate family relationships) with any existing Director, existing executive officer, the Company and/or substantial shareholder of the Company or of any of its principal subsidiaries	No	No
Conflict of interest (including any competing business)	No	No
Undertaking (in the format set out in Appendix 7.7) under Rule 720(1) has been submitted to the Company	Yes	Yes
Working experience and occupation(s) during the past 10 years	Practising as a Lawyer in law firm undertaking corporate and litigation works	Practising as a Chartered Accountant in Plus LLP (formerly known as CY NG & CO)
Shareholding interest in the listed issuer and its subsidiaries	No	Yes
Shareholding details	Not applicable	150,000 Serial System Ltd shares
Other Principal Commitments including Directorships		
Past (for the last 5 years)	Best World International Ltd	- Ecowise Holdings Ltd - Mermaid Maritime Public Co Ltd - Mermaid Drilling (Singapore) Pte Ltd - Mermaid Offshore Services Pte Ltd - MTR-1 (Singapore) Pte Ltd - MTR-2 (Singapore) Pte Ltd - MTR-3 (Singapore) Pte Ltd - MTR-4 (Singapore) Pte Ltd - Mermaid MTN Pte Ltd - Seascope Surveys Pte Ltd - Bonython Trading Pte Ltd - Lancashire General Properties (S) Pte Ltd
Present	Partner with Colin Ng & Partners	- Partner with Plus LLP - Non-Executive and Independent Director of SGX-listed Samko Timber Limited, Vicplas International Ltd and MoneyMax Financial Services Ltd - Non-Executive Director of Taiwan-listed Bull Will Co., Ltd
Information Required Pursuant to Listing Rule 704(7)		
(a) Whether at any time during the last 10 years, an application or a petition under any bankruptcy law of any jurisdiction was filed against him or against a partnership of which he was a partner at the time when he was a partner or at any time within 2 years from the date he ceased to be partner?	No	No

4. Board Membership (continued)

Principle 4: Formal and transparent process for the appointment of directors to the Board (continued)

(b) Whether at any time during the last 10 years, an application or a petition under any law of any jurisdiction was filed against an entity (not being a partnership) of which he was a Director or an equivalent person or a key executive, at the time when he was a Director or an equivalent person or a key executive of that entity or at any time within 2 years from the date he ceased to be a Director or an equivalent person or a key executive of that entity, for the winding up or dissolution of that entity or, where that entity is the trustee of a business trust, that business trust, on the ground of insolvency?	No	No
(c) Whether there is any unsatisfied judgment against him?	No	No
(d) Whether he has ever been convicted of any offence, in Singapore or elsewhere, involving fraud or dishonesty which is punishable with imprisonment, or has been the subject of any criminal proceedings (including any pending criminal proceedings of which he is aware) for such purpose?	No	No
(e) Whether he has ever been convicted of any offence, in Singapore or elsewhere, involving a breach of any law or regulatory requirement that relates to the securities or futures industry in Singapore or elsewhere, or has been the subject of any criminal proceedings (including any pending criminal proceedings of which he is aware) for such breach?	No	In February 2017, a civil suit has been initiated by the Securities and Futures Investors Protection Centre of Taiwan against amongst others; Bull Will Co., Ltd, its directors, independent directors, supervisors, accounting supervisors, legal shareholder, and external auditors. The civil suit is currently in progress. Ng Cher Yan is a Non-Executive Director of Bull Will Co., Ltd.

4. Board Membership (continued)

Principle 4: Formal and transparent process for the appointment of directors to the Board (continued)

(f) Whether at any time during the last 10 years, judgment has been entered against him in any civil proceedings in Singapore or elsewhere involving a breach of any law or regulatory requirement that relates to the securities or futures industry in Singapore or elsewhere, or a finding of fraud, misrepresentation or dishonesty on his part, or he has been the subject of any civil proceedings (including any pending civil proceedings of which he is aware) involving an allegation of fraud, misrepresentation or dishonesty on his part?	No	No
(g) Whether he has ever been convicted in Singapore or elsewhere of any offence in connection with the formation or management of any entity or business trust?	No	On 7 July 2000, a Summon was issued against Ng Cher Yan as a nominee director of SFL-Boiler Installation Pte Ltd ("SFL") relating to a failure by SFL to file annual return within the requisite period. The Summon was resolved upon payment of a fine of S\$1,200.
(h) Whether he has ever been disqualified from acting as a director or an equivalent person of any entity (including the trustee of a business trust), or from taking part directly or indirectly in the management of any entity or business trust?	No	No
(i) Whether he has ever been the subject of any order, judgment or ruling of any court, tribunal or governmental body, permanently or temporarily enjoining him from engaging in any type of business practice or activity?	No	No
(j) Whether he has ever, to his knowledge, been concerned with the management or conduct, in Singapore or elsewhere, of the affairs of :—		
(i) any corporation which has been investigated for a breach of any law or regulatory requirement governing corporations in Singapore or elsewhere; or	No	No

4. Board Membership (continued)

Principle 4: Formal and transparent process for the appointment of directors to the Board (continued)

(ii) any entity (not being a corporation) which has been investigated for a breach of any law or regulatory requirement governing such entities in Singapore or elsewhere; or	No	No
(iii) any business trust which has been investigated for a breach of any law or regulatory requirement governing business trusts in Singapore or elsewhere; or	No	No
(iv) any entity or business trust which has been investigated for a breach of any law or regulatory requirement that relates to the securities or futures industry in Singapore or elsewhere, in connection with any matter occurring or arising during that period when he was so concerned with the entity or business trust?	No	No
(k) Whether he has been the subject of any current or past investigation or disciplinary proceedings, or has been reprimanded or issued any warning, by the Monetary Authority of Singapore or any other regulatory authority, exchange, professional body or government agency, whether in Singapore or elsewhere?	No	No
Disclosure applicable to the appointment of Director only		
Any prior experience as a Director of an issuer listed on the Exchange? If Yes, please provide details of prior experience. If No, please state if the Director has attended or will be attending training on the roles and responsibilities of a Director of a listed issuer as prescribed by the Exchange. Please provide details of relevant experience and the Nominating Committee's reasons for not requiring the Director to undergo training as prescribed by the Exchange (if applicable).	Not applicable	

5. Board Performance

Principle 5: Assessment of the effectiveness of the Board

Guideline 5.1: Board performance

The Board, through the NC, has used its best effort to ensure that directors appointed to the Board, whether individually or collectively, possess the background, experience, knowledge in the business, as well as competencies in finance and management skills critical to the Group's businesses. It has also ensured that each director, with his special contributions, brings to the Board an independent and objective perspective to enable sound, balanced and well-considered decisions to be made.

Each financial year, all directors are required to complete a questionnaire seeking their view on the various aspects contributing to the overall effectiveness of the Board. The completed evaluation forms are submitted to the Company Secretary who collate the responses confidentially. The consolidated responses were presented to the NC for review before submitting to the Board for discussion and determining areas for improvement and enhancement of the Board effectiveness. Following the review in FY2018, the Board is of the view that the Board and its Board committees operate effectively and each director is contributing to the overall effectiveness of the Board.

Guideline 5.2 and 5.3: Performance criteria for board evaluation and evaluation of individual director

The NC has reviewed the performance and effectiveness of the Board as a whole, the respective Board Committees, as well as the contributions of individual director. The individual director's performance is evaluated annually and informally on a continual basis by the NC and the Chairman. The criteria taken into consideration by the NC and the Chairman include the value of contribution to the development of strategy, the degree of preparedness, industry and business knowledge and experience each director possess which are crucial to the Group's businesses.

6. Access to information

Principle 6: Board members should be provided with complete, adequate and timely information

Guideline 6.1: Board access to information

From time to time, the directors are furnished with information concerning the Group's operations so that they can be appropriately cognisant of the decisions and actions of the Management. All non-executive and independent directors have access to the Management through face-to-face meetings, electronic email, telephone and instant messaging services.

Board papers are also prepared and circulated reasonably in advance of Board meetings to enable directors to review the matters up for discussion, and contribute to meaningful discussions. The Board papers may include information such as business strategies, financial information, risk analysis, industry trends and other information deemed relevant to the matters tabled for discussion.

Guideline 6.2: Provision of information to the Board

Directors have had the opportunity to meet with the Management and receive briefings on the Group's operations and policies. Non-executive and independent directors are provided with orientation and updates on the salient aspects of the Group's businesses.

Guideline 6.3: Board's access to the Company Secretary

The Company Secretary attends all Board and Board Committee meetings and is responsible for ensuring that established procedures and the relevant statutes and regulations are complied with. Directors have separate and independent access to the Company Secretary through face-to-face meetings, electronic email, telephone and instant messaging services.

Guideline 6.4: Appointment and removal of Company Secretary

The appointment and the removal of the Company Secretary are subject to the approval of the Board.

Guideline 6.5: Board's access to independent professional advice

If need be, all non-executive and independent directors have the right to seek professional advice, at the Group's expense, concerning any aspect of the Group's operations or undertakings in order to fulfill their duties and responsibilities as directors.

7. Remuneration Matters

Principle 7: Procedures for developing remuneration policies

Guideline 7.1: Remuneration Committee

Ravindran s/o Ramasamy chairs the RC. Other members of the RC are Tan Lye Heng Paul, Ng Cher Yan and Derek Goh Bak Heng. Derek Goh Bak Heng ceased to be a member of the RC with effect from 18 March 2019.

The RC has its terms of reference. Specifically, it:

- reviews and recommends to the Board a framework of remuneration for board members and key management personnel, and the specific remuneration packages for each director (executive and independent) as well as for the key management personnel
- reviews the Company's obligations in the event of termination of the executive directors' and key management personnel's contracts of service, to ensure that such clauses are fair and reasonable and not overly generous
- performs such other functions as the Board may determine

Guideline 7.2: Remuneration framework

The RC is responsible for ensuring that a formal and transparent procedure is in place for determining the remuneration packages of the executive directors and key management personnel. The remuneration package of each executive director and key management personnel is based on the performances of both the Group and the individual. The RC recommends for the Board's endorsement, a framework of remuneration that covers all aspects of remuneration, including but not limited to directors' fees, salaries, allowances, bonuses, benefits-in-kind and specific remuneration packages for each director. No director is involved in deciding his own remuneration.

A member of the RC holds office until the next AGM following his appointment and may, subject to the prior approval of the Board, be re-appointed to such office.

The RC held one meeting in FY2018 and the attendance by the members is tabulated in Table 2 – "Attendance at Board and Board Committee Meetings" above.

Guideline 7.3: RC's access to advise on remuneration matters

The RC has full authority to engage any external professional to advise on matters relating to remuneration as and when the need arises. In FY2018, the RC did not require the service of such an external professional.

Guideline 7.4: Service contract

The Company's obligations in the event of termination of service of executive director and key management personnel are contained in their respective service agreements. The RC was satisfied that termination clauses therein are fair and reasonable to the respective employment class and are not overly generous.

8. Level and mix of remuneration

Principle 8: Level and mix of remuneration

Guideline 8.1: Remuneration of executive director and key management personnel

The Board believes that it is imperative to remunerate executive directors and key management personnel equitably to attract and retain individuals with the necessary talents and capabilities.

The annual reviews of the compensation are carried out by the RC to ensure that the remuneration of the executive directors and key management personnel commensurate with their performance and that of the Company, giving due regard to the financial and commercial health and business needs of the Group, prevailing economic situation, pay and employment conditions within similar industry and in comparable companies. The remuneration package of the executive directors and key management personnel comprises a basic salary component and a variable component which is the annual incentive bonus, based on the performance of the Group as a whole and the individual performance of the key management personnel in respect of the regions or business units they are in charged. This is designed to align remuneration with the interests of shareholders and link rewards to corporate and individual performance so as to promote the long-term sustainability of the Group. The remuneration packages of employees related to executive directors and controlling shareholders of the Group are in line with the Group's staff remuneration guidelines and commensurate with their respective job scope and levels of responsibility.

8. Level and mix of remuneration (continued)

Principle 8: Level and mix of remuneration (continued)

In FY2018, the RC considered and approved Derek Goh Bak Heng's specific remuneration package which includes salary, bonus and benefits-in-kind, after considering his performance and the financial performance of the Group. The Company contributed a total of S\$790,985 to a long term incentive scheme (deferred compensation) comprising two insurance plans for Derek Goh Bak Heng which was approved by the RC and the Board as disclosed in the Company's Annual Report for the financial year ended 31 December 2016.

Guideline 8.2: Long term incentive scheme

The Company has in place a Serial System Employee Share Option Scheme 2014 ("**2014 Scheme**"), duly approved by shareholders at the Extraordinary General Meeting held on 26 April 2014. The 2014 Scheme replaces the previous 2004 scheme which expired on 29 January 2014.

The 2014 Scheme will continue to provide the opportunity presented by the previous 2004 Scheme for all employees who have contributed significantly to the growth and performance of the Group. In particular, it enables the Company to motivate employees to optimize their performance standards and efficiency and to maintain a high level of contribution to the Group and helps to develop a participatory style of management which promotes greater commitment and dedication amongst the employees, thereby instilling loyalty and a stronger sense of identification with the success and long term well-being of the Group. It also makes total employee remuneration sufficiently competitive to recruit and retain key executives whose contributions are important to the long-term well-being and growth of the Group.

For the year under review, no share options has been granted to executive directors and key management personnel under the 2014 Scheme.

Guideline 8.3: Remuneration of non-executive directors

The Board concurred with the RC that the proposed directors' fees for FY2018 is appropriate and that the non-executive directors receive directors' fees in accordance with their level of contributions, taking into account factors such as effort and time spent for serving on the Board and Board Committees, as well as the responsibilities and obligations of the directors. The Company recognises the need to pay competitive fees to attract, motivate and retain directors without being excessive to the extent that their independence might be compromised.

The Board recommends to shareholders for approval at AGM the fees payable to directors.

The Company also extends its 2014 Scheme as mentioned in guideline 8.2 above, to non-executive directors in recognition of their contributions. The provision of share options to the non-executive directors will ensure that the Company will be able to continue to attract onto its Board, directors who will be able to assist in furthering the business interests of the Group. This will help enhance the growth and long-term profitability of the Company.

For the year under review, no share options has been granted to non-executive directors under the 2014 Scheme.

Guideline 8.4: Contractual provisions to reclaim incentive components of remuneration

Having reviewed and considered the variable components of the executive director and key management personnel, which are moderate, the RC is of the view that there is no requirement to institute contractual provisions in the terms of employment to reclaim incentive components of their remuneration paid in prior years.

In addition, the executive director owes a fiduciary duty to the Company. The Company should be able to avail itself to remedy against the executive director in the event of such breach of fiduciary duties.

9. Disclosure on remuneration

Principle 9: Disclosure on remuneration

Guideline 9.1 & 9.2: Remuneration report and remuneration of directors
Details of the remuneration paid / payable to the directors for FY2018 are as follows:

Executive Director	Directors' Fees ⁽¹⁾ (%)	Salary ⁽²⁾ and AWS ⁽³⁾ (%)	Incentive Bonus (%)	Other Benefits (%)	Total Remuneration (S\$)
Derek Goh Bak Heng	1.4	24.3	47.3	27.0	2,992,741 ⁽⁴⁾
Non-Executive & Independent Directors					
Teo Ser Luck	100.0	-	-	-	62,000
Tan Lye Heng Paul	100.0	-	-	-	45,000
Ravindran s/o Ramasamy	100.0	-	-	-	45,000
Ng Cher Yan	100.0	-	-	-	45,000
Non-Executive Director					
Goi Kok Neng Ben	100.0	-	-	-	42,000

⁽¹⁾ Accrued for FY2018

⁽²⁾ Includes employer's CPF contribution

⁽³⁾ Annual wage supplement of one-month salary

⁽⁴⁾ Includes a deferred compensation of S\$790,985 as detailed in Guideline 8.1 above

Note: The remuneration disclosed in this report does not include share option expense. No share options were granted to directors in FY 2018.

Guideline 9.3: Remuneration of top 5 key management personnel

The Board is aware that the Code requires the remuneration of at least the top five executives (who are not directors) to be disclosed. However, the Board, after careful deliberation, believes that such information is best kept confidential as disclosing the same would be prejudicial to its business given the highly competitive business environment. There are other expected disadvantages such as potential staff motivational and retention issues that such detailed disclosures may bring. The annual aggregate remuneration paid to the top five executives (who are not directors) for FY2018 is S\$2,350,113 and the remuneration bands for FY2018 are presented as follows:

Remuneration Bands	Number of Executives ⁽¹⁾
S\$500,000 to S\$749,999	2 ⁽²⁾
S\$250,000 to S\$499,999	3

⁽¹⁾ Includes executives of overseas subsidiaries

⁽²⁾ Includes remuneration payable to Sean Goh Su Teng, who is the cousin of Derek Goh Bak Heng, the Executive Chairman and Group CEO of the Company

Guideline 9.4: Employee related to directors / CEO

Save for Sean Goh Su Teng as disclosed in guideline 9.3 above, and Victoria Goh Si Hui who is the daughter of Derek Goh Bak Heng and whose remuneration in FY2018 exceeded S\$50,000, no other employee of the Company whose remuneration exceeded S\$50,000 during the year under review is an immediate family member of a Director or the CEO.

Guideline 9.5: Employee share scheme

For the year under review, the Company did not grant any share options under the 2014 Scheme.

Guideline 9.6: Disclosure of information on link between remuneration payable and performance
Please refer to guideline 8.1 above.

10. Accountability and audit

Principle 10: Presentation of a balanced and understandable assessment of the Company's performance, position and prospects

Guideline 10.1: Accountability for accurate information

The Board reviews and approves the results as well as any announcements before its release. Shareholders are provided with quarterly and annual financial reports. Results for the first three quarters are released to shareholders no later than 45 days from the end of the quarter. Annual results are released within 60 days from the financial year-end. In presenting the annual and quarterly financial statements to shareholders, the Board aims to provide shareholders with a balanced and clear assessment of the Group's operations, performance, financial position and prospects. The Board embraces openness and transparency in the conduct of the Group's affairs whilst preserving the commercial interests of the Group.

The Management provides the Board on a quarterly basis, financial reports and other information on the Group's operations, performance, financial position and prospects for their effective monitoring and decision making.

Guideline 10.2: Compliance with legislative and regulatory requirements

The Board reviews legislative and regulatory compliance reports from the Management to ensure that the Group complies with the relevant requirements.

In line with the Listing Rules of the SGX-ST, the Board provides a negative assurance statement to the shareholders in its quarterly financial statements announcements, confirming to the best of its knowledge that nothing had come to the attention of the Board which might render the financial statements false or misleading in any material aspect.

For the year under review, the Group CEO and the Group CFO have provided assurance to the Board on the integrity of the financial statements for the Company and its subsidiaries.

Guideline 10.3: Management accounts

The Management updates the Board on the Group's business activities and financial performance and highlights key business indicators and major issues that are relevant to the Group's performance, on a timely basis in order for the Board to make balanced and informed assessments of the Company's performance, financial position and prospects.

11. Risk Management and Internal Controls

Principle 11: Risk management and internal controls

Guideline 11.1: Risk management and internal control systems

The Board recognises the importance of maintaining a sound system of risk management and internal controls to safeguard the shareholders' interests and the Group's assets. However, the Board is of the view that any internal control system is designed to manage rather than totally eliminate the risk of failure to achieve business objectives. A cost effective internal control system can only provide reasonable and not total assurance against material misstatement or loss.

The AC, together with the assistance of the internal auditor oversee and ensure that such system has been appropriately implemented and monitored.

Guideline 11.2: Adequacy and effectiveness of risk management and internal control systems

The Group has documented a framework on its risk profile which summarizes the material risks faced by the Group and the counter-measures in place to manage or mitigate those risks which has been reviewed by the AC and the Board. The documentation 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 mechanism in place. It allows the Group to address the changes and the challenges in the business environment, reduces uncertainties and facilitates the shareholder value creation process on an ongoing basis. The Group's approach to risk management is set out under "Risk management" in the "Additional Requirements of Singapore Exchange Securities Trading Limited's Listing Manual" section on page 180 of this Annual Report.

On an annual basis, the internal auditor prepares the internal audit plan taking into consideration the risks identified which is approved by the AC. During the year under review, the AC reviewed the reports submitted by the internal auditor relating to the audits conducted to assess the adequacy and the effectiveness of the Group's risk management and the internal control systems that are put in place, including financial, operational, compliance and information technology controls. Any material non-compliance or lapses in internal controls, together with recommendations for improvement are reported to the AC. A copy of the report is also issued to the relevant departments for their follow-up actions. Major control weaknesses on financial reporting identified in the course of the statutory audit, if any, are also highlighted by external auditors to the AC.

11. Risk Management and Internal Controls (continued)

Principle 11: Risk management and internal controls (continued)

Guideline 11.3: Board's comments on adequacy and effectiveness of internal controls

The Board has received assurance from the Group CEO and the Group CFO that the Group's risk management and internal control systems in place is adequate and effective in addressing the key financial, operational and compliance risks of the Group in its current business environment and also that the financial records have been properly maintained and the financial statements give a true and fair view of the Group's operations and finances.

Based on the Group's framework of management controls in place, the internal control policies and procedures established and maintained by the Group, as well as reviews performed by external and internal auditors, the Board, with the concurrence of AC, is of the view that the internal control systems of the Group were adequate as at 31 December 2018 to address the financial, operational, compliance and information technology risks, which the Group considers relevant and material to its operations.

Guideline 11.4: Risk committee

The responsibility of overseeing the Company's risk management framework and policies is undertaken by the AC with the assistance of internal auditor. Having considered the Company's business operations as well as its existing risk management systems and internal controls, the Board is of the view that a separate risk committee is not required for the time being.

12. Audit Committee

Principle 12: Establishment of audit committee with written terms of reference

Guideline 12.1: AC membership

Tan Lye Heng Paul chairs the AC. The other members of the AC are Ravindran s/o Ramasamy and Ng Cher Yan. All three members of the AC are independent directors.

The AC has its terms of reference. Specifically, it:

- reviews with the Group's external auditors, their audit plan, evaluation of the internal accounting controls, audit report, and any matters which the external auditors wish to discuss
- reviews the Group's financial reports to shareholders and the general public to ensure that they comply with the Companies Act, SGX-ST's Listing Rules, and other regulatory requirements
- reviews with the internal auditors, the scope and results of internal audit procedures and their evaluation of the internal control system
- reviews assistance given by the Company's officers to the external and internal auditors
- reviews interested person transactions
- reviews the adequacy of the Group's whistle-blowing policy and ensure independent investigation and adequate resolution
- evaluates the objectivity and independence of the external auditors annually and nominates external auditors for appointment or re-appointment

Guideline 12.2: Expertise of AC members

The AC members bring with them professional expertise and experience in the accounting, financial management and legal domains. The Board is satisfied that the AC members are appropriately qualified to discharge their responsibilities.

Guideline 12.3 & 12.4: Roles, responsibilities and authority of AC

The AC has the explicit authority to investigate any matter within its terms of reference. During the year under review, the AC has full access to and cooperation by the Management. It also has the discretion to invite any director or member of the Management to its meetings as well as reasonable resources to enable it to discharge its functions properly.

The AC has reviewed the financial statements with the Management and external auditors and is of the view that the Company and Group's financial statements for FY2018 are fairly presented in conformity with the Singapore Financial Reporting Standards International ("**SFRS(I)**") in all material aspects.

A member of the AC holds office until the next AGM following his appointment and may, subject to the prior approval of the Board, be re-appointed to such office.

12. Audit Committee (continued)

Principle 12: Establishment of audit committee with written terms of reference (continued)

Where, by virtue of any vacancy in the membership of the AC for any reason, the number of members of the AC is reduced to less than three (or such other number as may be determined by SGX-ST), the Board shall, within three months thereafter, appoint such number of new members to the AC. Any new member appointed shall hold office for the remainder of the term of office of the member of the AC in whose place he or she is appointed.

The AC held four meetings in FY2018 and the attendance by the members is tabulated in Table 2 – “Attendance at Board and Board Committee Meetings” above.

Guideline 12.5: External and internal auditors

The AC meets regularly with the Group’s external auditors and internal auditors. At least once a year, the AC would meet with the Group’s external auditors and internal auditors without the presence of the Management to ensure that there are no unresolved areas of concern.

Guideline 12.6: Independence of external auditors

The AC confirms that it has undertaken a review of all non-audit services provided by the external auditors and is satisfied that such services would not, in the AC’s opinion, affect the independence of the external auditors. The AC has recommended to the Board that the independent auditors, Moore Stephens LLP, Public Accountants and Chartered Accountants, be nominated for re-appointment as external auditors at the forthcoming AGM of the Company.

The auditors of the Company’s subsidiaries, associated companies and joint venture are disclosed in Note 21, Note 19 and Note 20 respectively to the financial statements in this annual report. The Company confirms that Listing Rule 712, Rule 715 and Rule 716 of the SGX-ST’s Listing Manual are complied with.

Guideline 12.7: Whistle-blowing policy

As a further enhancement to internal risk control processes, the Company has in place a whistle-blowing policy. Under this whistle-blowing policy, staff can report or raise concerns over any “wrongdoings” across the Group relating to unlawful conduct, financial malpractice or dangers to the public or the environment to the chairman of the AC, with the “whistleblower” who has acted in good faith, being provided confidentiality, victimisation and harassment protection. “Wrongdoings” can include fraud, corruption, theft, abuse of authority, breach of regulations or non-compliance with the Group’s internal controls and procedures.

On an ongoing basis, the whistle-blowing policy is covered during staff training and periodic communication including e-mail sent quarterly to all staff as part of the Group’s efforts to promote awareness of fraud prevention.

Guideline 12.8: AC to keep abreast of changes to accounting standards

In addition to the activities undertaken to fulfill its responsibility, the AC is kept abreast by the Management, external auditors and internal auditors on changes to accounting standards, SGX-ST’s listing rules and other codes and regulations which could have an impact on the Group’s business and financial statements.

Guideline 12.9: Cooling-off period for partners or directors of the Company’s auditing firm

No former partner or director of the Company’s existing auditing firm or audit’s corporation is a member of the AC.

13. Internal Audit

Principle 13: Internal audit

Guideline 13.1 & 13.2: Internal auditors

The Board is responsible for maintaining a system of internal controls to safeguard shareholders’ investments and the Group’s assets with the AC tasked to oversee the implementation of an effective system of internal controls to address the key financial, operational and compliance risks affecting the operations of the Group.

The AC approves the hiring, removal, evaluation and compensation of internal auditors.

The Group hires in-house internal auditor who reports directly to the chairman of the AC, for the year under review. The internal auditor has unrestricted access to the documents, records, properties and personnel of the Company and of the Group.

13. Internal Audit (continued)

Principle 13: Internal audit (continued)

Guideline 13.3 & 13.4: Internal audit function

The Company's internal audit function is independent of the activities it audits. The internal auditor is a member of the Institute of Internal Auditors Singapore with relevant qualifications and experience.

At the beginning of each year, an annual internal audit plan which entails the review of selected functions or business units of the Group is developed and agreed by the AC. The AC is satisfied that the Company's internal audit function is adequately resourced to perform the work for the Group.

Guideline 13.5: Adequacy and effectiveness of internal audit function

On an annual basis, the Group prepares its internal audit plan taking into consideration the risks identified which is approved by the AC. The internal audits are conducted to assess the adequacy and the effectiveness of the Group's risk management and the internal control systems that are put in place, including financial, operational, compliance and information technology controls. Any material non-compliance or lapses in internal controls, together with recommendations for improvement are reported to the AC. A copy of the report is also issued to the relevant departments for their follow-up actions. The timely and proper implementation of all required corrective, preventive or improvement measures are closely monitored.

Based on the internal controls established and reviews performed by the Management, works performed by the internal and external auditors, the AC and the Board are of the opinion that the Group's internal controls were adequate as at 31 December 2018 to address the financial, operational, compliance and information technology risks, which the Group considers relevant and material to its operations.

14. Shareholder rights and responsibilities

Principle 14: Shareholder rights

Guideline 14.1: Sufficient information to shareholders

It is the Board's policy that all shareholders should be treated equally and timely informed of material developments. The Group does not practise selective disclosure.

To facilitate shareholders' ownership rights, the Company ensures that all material information is disclosed in a comprehensive, accurate and timely basis via SGXNET and the Company's website, especially information pertaining to the Group's business development and financial performance which could have a material impact on the share price of the Company, so as to enable shareholders to make informed decisions in respect of their investments in the Company.

Guideline 14.2: Providing opportunity for shareholders to participate and vote at general meetings

Shareholders are informed of shareholders' meetings through notices contained in annual reports or circulars sent to all shareholders at least fourteen days before the scheduled dates of such meetings in accordance to the nature of the business to be transacted. These notices are also published in the Business Times and posted on the SGXNET and the Company's website. Shareholders are invited to attend the general meetings to put forth any questions they may have on the motions to be debated and decided upon.

All shareholders are entitled to vote in accordance with the established voting rules and procedures.

Guideline 14.3: Proxies for nominee companies

Whilst there is no limit imposed on the number of proxy votes for nominee companies, the Company's Constitution allows each shareholder to appoint up to two proxies to attend its general meetings.

In addition, pursuant to Section 181(1C) of the Companies Act, a shareholder who is a custodial institution or relevant intermediary entitled to attend the meeting and vote is entitled to appoint more than two proxies to attend and vote in his/her stead, but each proxy must be appointed to exercise the rights attached to a different share or shares held by such shareholder. Where such shareholder appoints more than two proxies, the number and class of shares to be represented by each proxy must be stated.

15. Communication with shareholders

Principle 15: Communication with shareholders

Guideline 15.1 & 15.2: Communication with shareholders and timely information to shareholders

In line with the continuous disclosure obligations under the listing rules of the SGX-ST, the Companies Act and the SFRS(I), the Board informs shareholders promptly of all major developments that may have material impact on the Group. Material information including quarterly and full-year results are released through SGXNET and the Company's website.

Management also holds briefings with analysts to coincide with the release of the Group's quarterly and full-year results, and related presentation slides and press releases are also made available on SGXNET and the Company's website.

The Company's annual report and notice of general meetings which contain, amongst others, information required to be disclosed by the SGX-ST, the SFRS(I), and the Companies Act, are accessible by all shareholders via the Company's website and SGXNet.

Shareholders can assess information on the Group through the Company's website at www.serialsystem.com which provides the Company's corporate announcements, press releases and profiles.

Guideline 15.3 & 15.4: Regular dialogue with shareholders & soliciting and understanding views of shareholders

The Board recognises that the general meetings are the most feasible medium for communicating with shareholders. Time will be allocated for greater shareholders' participation at general meetings as well as to provide shareholders the opportunity to communicate their views on matters affecting the Group. The chairmen of the AC, NC, and RC are normally available at these meetings to address questions.

Guideline 15.5: Dividend policy

The Company does not have a concrete dividend policy at present. The form, frequency and amount of dividends payable each year will take into consideration the Company's actual profitability and ability to pay dividends in the relevant financial year, the operating cash flow requirements, financing commitments, anticipated capital expenditure, any future expansion and investment plans of the Company and its subsidiaries, and such factors that the Board may, in its sole and absolute discretion, deem necessary or appropriate.

16. Conduct of Shareholder Meetings

Principle 16: Conduct of shareholder meetings

Guideline 16.1: Effective shareholders participation

Shareholders currently are allowed to vote in person or in absentia. Equal effect is given to votes whether cast in person or in absentia. If shareholders are unable to attend the meetings, the Company's Constitution allows a shareholder of the Company to appoint up to two proxies to attend and vote in place of the shareholder.

Guideline 16.2: Separate resolution at general meetings

To ensure that shareholders can have better exercise of their right to approve or deny each issue or motion, separate issues are not combined and presented as one single motion for voting by the shareholders. At shareholders' meetings, there are separate resolutions on each distinct issue.

Guideline 16.3: Attendees at general meetings

The Chairman of the Board and its committees attend all general meetings to address issues raised by shareholders. The Company's external auditors and its legal advisers are also invited to attend the meetings and are available to assist the directors in addressing any relevant queries from shareholders.

Guideline 16.4: Minutes of general meetings

The minutes of general meetings, which include substantial comments or queries from shareholders and responses from the Board are available to shareholders upon written request.

Guideline 16.5: Voting by poll at general meetings

To promote greater transparency in general meetings and support listed companies in enhancing their shareholders engagement, the resolutions of the Company transacted at general meetings are carried out and voted by poll where shareholders are accorded rights proportionate to the shareholding and all votes are counted in accordance with the provisions of the Company's Constitution. The information on the total number of votes cast for or against each resolution are incorporated into the announcement released on SGXNET and the Company's website after the general meeting.

Other corporate governance matters

Dealing in securities

In compliance with Listing Rule 1207 (19) of the Listing Manual of SGX-ST, the Group has advised its directors and officers not to deal in the Company's shares during the period commencing two weeks before announcement of the Company's quarterly results and one month before announcement of the Company's full-year results, and ending on the date of such announcements. Directors and officers are also reminded not to trade in listed securities of the Group at any time while in possession of unpublished price sensitive information and to refrain from dealing in the Group's securities on short-term considerations.

Interested person transactions

The Company has adopted an internal policy in respect of any transactions with interested persons and established procedures for periodic review and approval of these transactions by the AC.

The Group does not have a general mandate from shareholders for interested person transactions pursuant to Rule 920 of the Listing Manual of SGX-ST. Disclosure of "related party transactions" is set out on pages 173 to 174 of this Annual Report.

Compliance with The Code of Corporate Governance

The Board is satisfied that for FY2018, the Group has complied with the spirit of the principal corporate governance recommendations set out in The Code of Corporate Governance 2012.

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Directors' Statement

For the financial year ended 31 December 2018

The directors present their statement to the members together with the audited financial statements of Serial System Ltd (the "Company") and its subsidiaries (the "Group") for the financial year ended 31 December 2018 and the statement of financial position of the Company as at 31 December 2018.

In the opinion of the directors,

- (a) the statement of financial position of the Company and the consolidated financial statements of the Group are drawn up so as to give a true and fair view of the financial positions of the Company and of the Group as at 31 December 2018 and the financial performance, changes in equity and cash flows of the Group for the financial year then ended; 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.

Directors

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

Derek Goh Bak Heng
Teo Ser Luck
Tan Lye Heng Paul
Ravindran s/o Ramasamy
Ng Cher Yan

Arrangements to enable directors to acquire shares and debentures

Neither at the end of nor at any time during the financial year was the Company a party to any arrangement whose object was to enable the directors of the Company to acquire benefits by means of the acquisition of shares in, or debentures of, the Company or any other body corporate, other than as disclosed under "Share Options" in this statement.

Directors' interests in shares or debentures

- (a) According to the register of directors' shareholdings, the interests of the directors holding office at the end of the financial year in the issued share capital of the Company and related corporations were as follows:

	Holdings registered in name of director or nominees			Deemed interest holdings		
	At	At	At	At	At	At
	21.1.2019	31.12.2018	1.1.2018	21.1.2019	31.12.2018	1.1.2018
The Company						
<u>(Number of ordinary shares)</u>						
Derek Goh Bak Heng	355,090,070	355,090,070	355,090,070	50,000	50,000	50,000
Tan Lye Heng Paul	350,000	350,000	300,000	–	–	–
Ng Cher Yan	150,000	150,000	150,000	–	–	–

- (b) None of the directors holding office at the end of the financial year had share options to subscribe for ordinary shares of the Company granted pursuant to the Serial System Employee Share Option Scheme 2014.

Directors' Statement

For the financial year ended 31 December 2018

Directors' interests in shares or debentures (continued)

- (c) Derek Goh Bak Heng, who by virtue of his interest of not less than 20% of the issued share capital of the Company, is deemed to have an interest in the whole of the issued share capital of the Company's wholly owned subsidiaries and in the following partially owned subsidiaries of the Group:

	Holdings in which a director is deemed to have an interest	
	At 31.12.2018	At 1.1.2018
Serial Microelectronics (HK) Limited (Number of ordinary shares of HK\$1 each)	54,600,000	54,600,000
Serial Microelectronics Inc. (Number of ordinary shares of NT\$10 each)	5,348,250	5,348,250
Serial Microelectronics (Shenzhen) Co., Ltd (Capital contribution in HK\$)	64,885,417	64,885,417
Serial Design Limited (Number of ordinary shares of HK\$1 each)	9,100	9,100
PT. Serial Microelectronics Indonesia (Number of ordinary shares of US\$1 each)	99,000	99,000
TeamPal Enterprise Corp. (Number of ordinary shares of NT\$10 each)	1,432,500	1,432,500
STech Global Trading Pte. Ltd. (formerly known as Serial GIS Pte. Ltd.) (Number of ordinary shares)	450,000	350,000
Serial Automotive Limited (Number of ordinary shares of HK\$1 each)	5,460	5,460
Serial Vision Limited (Number of ordinary shares of HK\$1 each)	9,100	9,100
Serial Automotive (Shanghai) Co., Ltd (Capital contribution in RMB)	546,000	546,000
Hydra & Thermal Pte. Ltd. (Number of ordinary shares)	2,147,499	2,147,499
PT. Achieva Technology Indonesia (Number of ordinary shares of IDR1 million each)	6,060	2,000
Serial Factoring (Thailand) Co., Ltd (Number of ordinary shares)	1,470,000	1,470,000
Serial Netcom Co., Ltd (Number of ordinary shares of US\$1 each)	42,000	42,000
Hydra & Thermal International (Cambodia) Co., Ltd. (Number of ordinary shares of US\$1 each)	700	700

Directors' Statement

For the financial year ended 31 December 2018

Directors' interests in shares or debentures (continued)

(c) (continued)

	Holdings in which a director is deemed to have an interest	
	At 31.12.2018	At 1.1.2018
Serial Microelectronics (Beijing) Co., Ltd (Capital contribution in RMB) ⁽¹⁾	–	–
Newstone Technology Limited (Number of ordinary shares of US\$1 each)	464,100	464,100
Print-IQ Singapore Pte. Ltd. (Number of ordinary shares)	140,000	140,000
Bast Investment Pte. Ltd. (Number of ordinary shares)	165,000	165,000
Bast Global Sdn. Bhd. (Number of ordinary shares of RM1 each)	5,500	5,500
Serial Microelectronics India LLP (Capital contribution in INR)	3,267,001	3,267,001
Xuanhong Automotive Electronics Limited (Number of ordinary shares of HK\$1 each)	732,550	732,550
Xuanli Automotive Electronics Co., Limited (Capital contribution in RMB)	622,202	622,202
Newstone Technology (Shenzhen) Company Limited (Capital contribution in RMB) ⁽²⁾	1,485,443	–
XIN Holdings International Limited (Number of ordinary shares of HK\$0.01 each)	910	–
Xin Capital Limited (Number of ordinary shares of US\$1 each)	91	–
SB Global Ventures Pte. Ltd. (Number of ordinary shares)	65	–

Note:

(1) Capital has not been contributed as at 31 December 2018 and 31 December 2017

(2) Capital has not been contributed as at 31 December 2017

Directors' Statement

For the financial year ended 31 December 2018

Share options

(a) Serial System Employee Share Option Scheme 2014 (the "2014 Scheme")

The 2014 Scheme was approved by the shareholders at the Extraordinary General Meeting of the Company held on 26 April 2014. It replaced the previous Serial System Executives Share Option Scheme (the "2004 Scheme"), which expired on 29 January 2014. Any share options granted and accepted under the 2004 Scheme have been fully exercised upon expiry of the 2004 Scheme on 29 January 2014.

Under the 2014 Scheme, share options are granted to the following persons at the absolute discretion of the 2014 Scheme's Committee (the "Committee"):

- (i) confirmed full-time employees of the Company and its subsidiaries who have attained the age of 21 years on or before the date of grant of the share options;
- (ii) executive directors of the Company;
- (iii) non-executive directors of the Company; and
- (iv) employees who qualify under (i) above and are seconded to an associated company or a company outside the Group in which the Company and/or Group has an equity interest, and who, in the absolute discretion of the Committee is selected to participate in the 2014 Scheme.

For the purpose of paragraph (iv) above, the secondment of an employee to another company shall not be regarded as a break in his employment or his having ceased employment as a full-time employee of the Group by reason only of such secondment.

For non-incentive share options, the exercise price of the granted share options is to be determined by the Committee, in its absolute discretion, at a price equal to the average of the last dealt prices of the Company on the Singapore Exchange Securities Trading Limited ("SGX-ST") for a period of five consecutive trading days ("Market Price") immediately prior to the date of offer of the share options.

For incentive share options, share options are granted at a price which is set at a discount to the Market Price, provided that the maximum discount shall not exceed 20% of the Market Price; and the shareholders of the Company in a general meeting have authorised, in a separate resolution, the making of offers and grants of such share options under the 2014 Scheme at a discount not exceeding the maximum discount as aforesaid.

The share options are vested one month after the date of offer of the share options. Once the share options are vested, they are exercisable for a term of 10 years, and for non-executive directors of the Company, for a term of 5 years, or such other terms determined by the Committee or prescribed under any relevant law, regulation or rule of the SGX-ST from time to time.

There is no restriction to the eligibility of any persons to whom the share options have been granted, to participate in other share option or share incentive schemes implemented by the Company, subsidiaries or associated companies.

Particulars of the share options granted in the preceding financial years under the previous schemes were set out in the Directors' Statements for the respective financial years.

There were no share options granted pursuant to the 2014 Scheme during the financial year ended 31 December 2018 and 31 December 2017.

(b) Outstanding share options

There are no share options outstanding at the end of the financial year ended 31 December 2018.

Directors' Statement

For the financial year ended 31 December 2018

Share options (continued)

(c) Other information required by SGX-ST

Pursuant to clause 852(1) of the Listing Manual of the SGX-ST, in addition to information disclosed elsewhere in this statement, the directors report that:

- (i) the members of the Committee administering the 2014 Scheme are Ravindran s/o Ramasamy (Chairman), Tan Lye Heng Paul, Ng Cher Yan and Derek Goh Bak Heng.
- (ii) there were no outstanding share options granted to and exercised by directors of the Company during the financial year.
- (iii) no share options have been granted to controlling shareholders of the Company or their associates, directors and employees of the parent company (as defined in the Listing Manual of the SGX-ST) and its subsidiaries and no employee has received 5% or more of the total number of share options available under the 2014 Scheme during the financial year.
- (iv) no other director or employee of the Company and its subsidiaries (as defined in the Listing Manual of the SGX-ST) has received 5% or more of the total number of share options available to all directors and employees of the Company and its subsidiaries under the 2014 Scheme during the financial year.
- (v) no share options were granted at a discount during the financial year.

Audit Committee

The members of the Audit Committee at the end of the financial year were as follows:

Tan Lye Heng Paul (Chairman)
Ravindran s/o Ramasamy
Ng Cher Yan

The Audit Committee carried out its functions in accordance with Section 201B(5) of the Companies Act, Chapter 50 (the "Act"). In performing those functions, the Committee:

- reviews with the Group's external auditors, their audit plan, evaluation of the internal accounting controls, audit report, and any matters which the external auditors wish to discuss;
- reviews the Group's financial reports to shareholders and the general public to ensure that they comply with the Act, SGX-ST's Listing Rules, and other regulatory requirements;
- reviews with the internal auditors, the scope and results of internal audit procedures and their evaluation of the internal control system;
- reviews assistance given by the Company's officers to the external and internal auditors;
- reviews interested person transactions;
- reviews the adequacy of the Group's whistle-blowing policy and ensure independent investigation and adequate resolution; and
- evaluates the objectivity and independence of the external auditors annually and nominates external auditors for appointment or re-appointment.

The Audit Committee has full access to and cooperation of the Management. It also has full discretion to invite any director or member of the Management to its meetings as well as reasonable resources to enable it to discharge its functions properly.

Directors' Statement

For the financial year ended 31 December 2018

Audit Committee (continued)

The Audit Committee is satisfied with the independence and objectivity of the external auditors. The Board of Directors with the nomination of the Audit Committee has recommended that the independent auditors, Moore Stephens LLP, be nominated for re-appointment as external auditors at the forthcoming Annual General Meeting of the Company.

The Audit Committee confirms that it has undertaken a review of all non-audit services provided by the external auditors and is satisfied that such services (if any) would not, in the Audit Committee's opinion, affect the independence of the external auditors.

The Board, with the concurrence of the Audit Committee, is of the view that the system of internal controls were adequate as at the end of the financial year to address financial, operational and compliance risks, which the Group considers relevant and material to its operations.

Independent auditors

The independent auditors, Moore Stephens LLP, have expressed their willingness to accept re-appointment.

On behalf of the Board of Directors

DEREK GOH BAK HENG
Director

TAN LYE HENG PAUL
Director

28 March 2019

Independent Auditor's Report To the members of Serial System Ltd

For the financial year ended 31 December 2018

Report on the Audit of the Financial Statements

Opinion

We have audited the financial statements of Serial System Ltd (the "Company") and its subsidiaries (the "Group") which comprise the consolidated statement of financial position of the Group and the statement of financial position of the Company as at 31 December 2018, and the consolidated income statement, consolidated statement of comprehensive income, consolidated statement of changes in equity and consolidated statement of cash flows of the Group for the year then ended, and notes to the financial statements, including a summary of significant accounting policies.

In our opinion, the accompanying consolidated financial statements of the Group and the statement of financial position of the Company are properly drawn up in accordance with the provisions of the Companies Act, Chapter 50 (the "Act") and Singapore Financial Reporting Standards International ("SFRS(I)") so as to give a true and fair view of the consolidated financial position of the Group and the financial position of the Company as at 31 December 2018 and of the consolidated financial performance, consolidated changes in equity and consolidated cash flows of the Group for the year ended on that date.

Basis for Opinion

We conducted our audit in accordance with Singapore Standards on Auditing (SSAs). Our responsibilities under those standards are further described in the Auditor's Responsibilities for the Audit of the Financial Statements section of our report. We are independent of the Group in accordance with the Accounting and Corporate Regulatory Authority (ACRA) Code of Professional Conduct and Ethics for Public Accountants and Accounting Entities (ACRA Code) together with the ethical requirements that are relevant to our audit of the financial statements in Singapore, and we have fulfilled our other ethical responsibilities in accordance with these requirements and the ACRA Code. We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our opinion.

Key Audit Matters

Key audit matters are those matters that, in our professional judgement, were of most significance in our audit of the financial statements of the current period. These matters were addressed in the context of our audit of the financial statements as a whole, and in forming our opinion thereon, and we do not provide a separate opinion on these matters.

Independent Auditor's Report To the members of Serial System Ltd

For the financial year ended 31 December 2018

Report on the Audit of the Financial Statements (continued)

Key Audit Matters (continued)

Key Audit Matters	How our audit addressed the key audit matter
Valuation of goodwill We refer to Note 2.14(a), Note 4(a)(i) and Note 24(a) to the financial statements. The carrying amount of the Group's goodwill amounted to US\$8,698,000 as at 31 December 2018. The Group tested goodwill for impairment at the end of the reporting period. The recoverable amounts of the allocated cash-generating units have been determined based on value-in-use calculations. These calculations require the use of estimates and assumptions which involve judgements. Changes to the estimates and assumptions will result in changes in the carrying amount of goodwill recognised at the end of the reporting year end. Based on the impairment test performed by management, the Group recorded an impairment loss amounting to US\$4,526,000 for the current financial year.	Our response We reviewed the value-in-use calculations of each cash-generating unit prepared by the management. We conducted a detailed discussion with the Group's key management and considered their views on the key estimates and assumptions used in determining the recoverable amounts. We compared the future cash forecast to actual past performance and industry benchmarks and challenged the key estimates and assumptions used by management, which included gross margins, growth rates and discount rates. Based on our understanding of the nature of the Group's businesses and the economic environment in which it operates, we have performed our own sensitivity analyses based on the range of acceptable key estimates and assumptions and analysed the impact to the headroom when breakeven or independently derived rates were applied. Our findings We found the estimates and assumptions used by management in the value-in-use calculations to determine the recoverable amounts of the goodwill allocated to each cash-generating units to be reasonable.
Tax recoverable relating to Transfer Pricing audit between the Group's subsidiary in the People's Republic of China ("China") and Hong Kong We refer to Note 2.5, Note 4(b)(ii), Note 9(b) and Note 12 to the financial statements. During the previous financial years, as part of the Transfer Pricing audit carried out by the People's Republic of China ("China") tax authority for transactions between the Group's subsidiary in China and Hong Kong, the Group paid additional income tax of RMB18,041,000 (US\$2,731,000) and interest of RMB4,374,000 (US\$652,000) to the China tax authority. As the Transfer Pricing audit was carried out in China, a unilateral adjustment in China could create a double taxation on the same profits in Hong Kong. In this respect, an independent tax consultant has been engaged to assist the Group's Hong Kong subsidiary to apply for corresponding adjustment to eliminate double taxation, based on current tax rules and regulations in China and Hong Kong. Significant judgement is required to determine the amount of tax recoverable that can be recognised to the extent that it is more likely than not that the Hong Kong tax authority will accept the application for the tax refund in principle and amount. Management has applied their judgement and recognised a tax recoverable amount of HK\$13,000,000 (US\$1,667,000) as at 31 December 2018.	Our response We discussed with the component auditors on their work performed. We evaluated the advice obtained by the Group's key management from the independent tax consultant to support the judgement taken by management in recognising the tax recoverable amount, including a detailed discussion with the Group's key management and independent tax consultant to consider their views in reaching the conclusion. Our findings We found the tax recoverable recognised to be appropriate and reasonable.

Independent Auditor's Report To the members of Serial System Ltd

For the financial year ended 31 December 2018

Report on the Audit of the Financial Statements (continued)

Other Information

Management is responsible for the other information. The other information comprises the information included in the Annual Report but does not include the financial statements and our auditor's report thereon.

Our opinion on the financial statements does not cover the other information and we do not express any form of assurance conclusion thereon.

In connection with our audit of the financial statements, our responsibility is to read the other information and, in doing so, consider whether the other information is materially inconsistent with the financial statements or our knowledge obtained in the audit or otherwise appears to be materially misstated. If, based on the work we have performed, we conclude that there is a material misstatement of this other information, we are required to report that fact. We have nothing to report in this regard.

Responsibilities of Management and Directors 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 Act and SFRS(I), 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 financial statements and to maintain accountability of assets.

In preparing the financial statements, management is responsible for assessing the Group's ability to continue as a going concern, disclosing, as applicable, matters related to going concern and using the going concern basis of accounting unless management either intends to liquidate the Group or to cease operations, or has no realistic alternative but to do so.

The directors' responsibilities include overseeing the Group's financial reporting process.

Auditor's Responsibilities for the Audit of the Financial Statements

Our objectives are to obtain reasonable assurance about whether the financial statements as a whole are free from material misstatement, whether due to fraud or error, and to issue an auditor's report that includes our opinion. Reasonable assurance is a high level of assurance, but is not a guarantee that an audit conducted in accordance with SSAs will always detect a material misstatement when it exists. Misstatements can arise from fraud or error and are considered material if, individually or in the aggregate, they could reasonably be expected to influence the economic decisions of users taken on the basis of these financial statements.

As part of an audit in accordance with SSAs, we exercise professional judgement and maintain professional scepticism throughout the audit. We also:

- Identify and assess the risks of material misstatement of the financial statements, whether due to fraud or error, design and perform audit procedures responsive to those risks, and obtain audit evidence that is sufficient and appropriate to provide a basis for our opinion. The risk of not detecting a material misstatement resulting from fraud is higher than for one resulting from error, as fraud may involve collusion, forgery, intentional omissions, misrepresentations, or the override of internal control.
- Obtain an understanding of internal control relevant to the audit 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 Group's internal control.
- Evaluate the appropriateness of accounting policies used and the reasonableness of accounting estimates and related disclosures made by management.

Independent Auditor's Report To the members of Serial System Ltd

For the financial year ended 31 December 2018

Report on the Audit of the Financial Statements (continued)

Auditor's Responsibilities for the Audit of the Financial Statements (continued)

- Conclude on the appropriateness of management's use of the going concern basis of accounting and, based on the audit evidence obtained, whether a material uncertainty exists related to events or conditions that may cast significant doubt on the Group's ability to continue as a going concern. If we conclude that a material uncertainty exists, we are required to draw attention in our auditor's report to the related disclosures in the financial statements or, if such disclosures are inadequate, to modify our opinion. Our conclusions are based on the audit evidence obtained up to the date of our auditor's report. However, future events or conditions may cause the Group to cease to continue as a going concern.
- Evaluate the overall presentation, structure and content of the financial statements, including the disclosures, and whether the financial statements represent the underlying transactions and events in a manner that achieves fair presentation.
- Obtain sufficient appropriate audit evidence regarding the Group to express an opinion on the consolidated financial statements. We are responsible for the direction, supervision and performance of the group audit. We remain solely responsible for our audit opinion.

We communicate with the directors regarding, among other matters, the planned scope and timing of the audit and significant audit findings, including any significant deficiencies in internal control that we identify during our audit.

We also provide the directors with a statement that we have complied with relevant ethical requirements regarding independence, and to communicate with them all relationships and other matters that may reasonably be thought to bear on our independence, and where applicable, related safeguards.

From the matters communicated with the directors, we determine those matters that were of most significance in the audit of the financial statements of the current period and are therefore the key audit matters. We describe these matters in our auditor's report unless law or regulation precludes public disclosure about the matter or when, in extremely rare circumstances, we determine that a matter should not be communicated in our report because the adverse consequences of doing so would reasonably be expected to outweigh the public interest benefits of such communication.

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.

The engagement partner on the audit resulting in this independent auditor's report is Neo Keng Jin.

Moore Stephens LLP

Public Accountants and Chartered Accountants

Singapore
28 March 2019

Consolidated Income Statement

For the financial year ended 31 December 2018

	Note	2018 US\$'000	2017 US\$'000
Sales	5	1,527,107	1,492,204
Cost of sales	6	(1,408,498)	(1,387,085)
Gross profit		118,609	105,119
Other income	5	24,490	5,959
Expenses:			
Distribution	6	(53,301)	(48,830)
Administrative	6	(17,303)	(13,051)
Finance	8	(14,318)	(10,290)
Other:			
Loss allowance on trade and other receivables	6	(1,965)	(4,125)
Other operating	6	(31,171)	(18,631)
Total expenses		(118,058)	(94,927)
		25,041	16,151
Share of results of associated companies (after income tax)		(335)	(446)
Share of loss of joint venture (after income tax)		(543)	(34)
Profit before income tax	6	24,163	15,671
Income tax expense	9	(5,706)	(4,125)
Profit after income tax		18,457	11,546
Attributable to:			
Equity holders of the Company		17,655	9,550
Non-controlling interests	35	802	1,996
		18,457	11,546
Earnings per share attributable to equity holders of the Company:			
Basic	10	1.97 cents	1.07 cents
Diluted	10	1.97 cents	1.07 cents

The accompanying notes form an integral part of these financial statements

Consolidated Statement of Comprehensive Income

For the financial year ended 31 December 2018

	Note	2018 US\$'000	2017 US\$'000
Profit for the year		18,457	11,546
Other comprehensive (loss)/income:			
Items that will not be reclassified subsequently to profit or loss:			
Fair value loss on financial assets, at fair value through other comprehensive income	17	(742)	–
Defined benefit plans' actuarial (loss)/gains	29	(57)	108
		(799)	108
Items that may be reclassified subsequently to profit or loss:			
Net loss on fair value changes on financial assets, available-for-sale	18	–	(660)
Cumulative loss reclassified from equity on impairment of financial assets, available-for-sale	18	–	1,444
Share of associated companies' other comprehensive (loss)/income		(365)	532
Share of an associated company's other comprehensive income reclassified from equity upon disposal		269	–
Share of joint venture's other comprehensive (loss)/income		(78)	126
Currency translation differences		(5,487)	9,453
		(5,661)	10,895
Other comprehensive (loss)/income for the year, net of tax		(6,460)	11,003
Total comprehensive income for the year		11,997	22,549
Total comprehensive income attributable to:			
Equity holders of the Company		11,491	20,601
Non-controlling interests	35	506	1,948
		11,997	22,549

The accompanying notes form an integral part of these financial statements

Statements of Financial Position

As at 31 December 2018

		The Group			The Company		
		31	31	1	31	31	1
	Note	December	December	January	December	December	January
		2018	2017	2017	2018	2017	2017
		US\$'000	US\$'000	US\$'000	US\$'000	US\$'000	US\$'000
ASSETS							
Current assets							
Cash and cash equivalents	11	59,180	73,080	65,153	8,057	8,478	859
Trade and other receivables	12	181,161	223,510	207,750	18,418	15,703	12,393
Inventories	13	144,995	168,465	152,901	–	–	–
Financial assets, at fair value through profit or loss	14	70,953	810	812	–	–	–
Other current assets	15	2,232	2,733	3,944	261	158	245
		458,521	468,598	430,560	26,736	24,339	13,497
Non-current assets							
Income tax recoverable	9	1,667	–	–	–	–	–
Loans and other receivables	16	–	–	820	34,970	41,370	45,241
Financial assets, at fair value through profit or loss	14	3,506	–	–	–	–	–
Financial assets, at fair value through other comprehensive income	17	1,995	–	–	–	–	–
Financial assets, available-for-sale	18	–	6,894	7,517	–	–	–
Investments in associated companies	19	3,742	18,375	16,738	1,390	1,936	4,872
Investment in joint venture	20	1,815	2,436	–	–	–	–
Investments in subsidiaries	21	–	–	–	68,653	72,789	65,547
Property, plant and equipment	22	35,323	37,630	35,200	720	355	305
Investment properties	23	4,402	4,534	5,267	–	–	–
Intangible assets	24	9,062	13,809	14,721	58	248	465
Other assets	25	566	1,171	1,068	–	–	–
Deferred income tax assets	30	481	841	711	–	–	–
		62,559	85,690	82,042	105,791	116,698	116,430
Total assets		521,080	554,288	512,602	132,527	141,037	129,927

The accompanying notes form an integral part of these financial statements

Statements of Financial Position

As at 31 December 2018

		The Group			The Company		
		31	31	1	31	31	1
	Note	December	December	January	December	December	January
		2018	2017	2017	2018	2017	2017
		US\$'000	US\$'000	US\$'000	US\$'000	US\$'000	US\$'000
LIABILITIES							
Current liabilities							
Trade and other payables	26	156,621	165,444	178,507	13,766	21,739	9,128
Current income tax liabilities	9	3,438	2,861	4,070	163	106	405
Borrowings	27	211,443	229,242	189,393	6,496	2,395	2,216
		371,502	397,547	371,970	20,425	24,240	11,749
Non-current liabilities							
Other payables	26	–	–	–	12,028	2,585	6,078
Borrowings	27	3,594	10,340	15,032	208	6,587	8,310
Defined benefit plans liabilities	29	863	831	542	–	–	–
Deferred income tax liabilities	30	660	555	271	288	249	–
		5,117	11,726	15,845	12,524	9,421	14,388
Total liabilities		376,619	409,273	387,815	32,949	33,661	26,137
NET ASSETS		144,461	145,015	124,787	99,578	107,376	103,790
EQUITY							
Capital and reserves attributable to equity holders of the Company							
Share capital	31	72,648	72,648	72,648	72,648	72,648	72,648
Treasury shares	31	(736)	(736)	(736)	(736)	(736)	(736)
Capital reserve	32	1,276	1,276	1,276	180	180	180
Defined benefit plans reserve	32	(206)	(149)	(257)	–	–	–
Fair value reserve	32	(742)	4,454	3,670	–	–	–
Revaluation reserve	32	59	59	59	–	–	–
Other reserve	32	(765)	(765)	(771)	–	–	–
Currency translation reserve	33	4,794	10,159	–	–	–	–
Retained earnings	34	60,401	50,581	44,036	27,486	35,284	31,698
		136,729	137,527	119,925	99,578	107,376	103,790
Non-controlling interests	35	7,732	7,488	4,862	–	–	–
TOTAL EQUITY		144,461	145,015	124,787	99,578	107,376	103,790

The accompanying notes form an integral part of these financial statements

Consolidated Statement of Changes in Equity

For the financial year ended 31 December 2018

Note	Attributable to equity holders of the Company										Total 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	Revaluation reserve US\$'000	Other reserve US\$'000	Currency translation reserve US\$'000	Retained earnings US\$'000	Non-controlling interests US\$'000		Total equity US\$'000
	72,648	(736)	1,276	(149)	4,454	59	(765)	10,159	50,581	7,488	145,015	
Balance at 31 December 2017												
Adoption of the SFRS(l) 9	-	-	-	-	(4,454)	-	-	-	4,454	-	-	
Balance at 1 January 2018	72,648	(736)	1,276	(149)	-	59	(765)	10,159	55,035	7,488	145,015	
Profit for the year	-	-	-	-	-	-	-	-	17,655	802	18,457	
Other comprehensive (loss)/income:												
Defined benefit plans' actuarial losses	-	-	-	(57)	-	-	-	-	-	-	(57)	
Fair value loss on financial assets, at fair value through other comprehensive income	-	-	-	-	(742)	-	-	-	-	(742)	(742)	
Share of associated companies' other comprehensive loss	-	-	-	-	-	-	-	(365)	-	-	(365)	
Share of an associated company's other comprehensive income reclassified from equity upon disposal	-	-	-	-	-	-	-	269	-	-	269	
Share of joint venture's other comprehensive loss	-	-	-	-	-	-	-	(78)	-	-	(78)	
Currency translation differences	-	-	-	-	-	-	-	(5,191)	-	(296)	(5,487)	
Other comprehensive loss for the year, net of tax	-	-	-	(57)	(742)	-	-	(5,365)	-	(296)	(6,460)	
Total comprehensive (loss)/income for the year	-	-	-	(57)	(742)	-	-	(5,365)	17,655	506	11,997	
Contributions by and distributions to owners:												
One-tier tax-exempt final cash dividend for year 2017	-	-	-	-	-	-	-	-	(3,115)	-	(3,115)	
One-tier tax-exempt interim cash dividend for year 2018	-	-	-	-	-	-	-	-	(2,621)	-	(2,621)	
One-tier tax-exempt special interim cash dividend for year 2018	-	-	-	-	-	-	-	-	(6,553)	-	(6,553)	
Total distributions to owners	-	-	-	-	-	-	-	-	(12,289)	-	(12,289)	
Others:												
Subscription of additional interest in a subsidiary by a non-controlling interest	-	-	-	-	-	-	-	-	-	60	60	
Acquisition of additional interest in a subsidiary from non-controlling interests	-	-	-	-	-	-	*	-	-	(35)	(35)	
Dividends paid to non-controlling interest holders	-	-	-	-	-	-	-	-	-	(287)	(287)	
Total others	-	-	-	-	-	-	-	-	-	(262)	(262)	
Balance at 31 December 2018	72,648	(736)	1,276	(206)	(742)	59	(765)	4,794	60,401	7,732	144,461	

* Amount less than US\$1,000.

The accompanying notes form an integral part of these financial statements

Consolidated Statement of Changes in Equity

For the financial year ended 31 December 2018

Attributable to equity holders of the Company													Total attributable to equity holders
Note	Share capital US\$'000	Treasury shares US\$'000	Capital reserve US\$'000	Defined benefit plans reserve US\$'000	Fair value reserve US\$'000	Revaluation reserve US\$'000	Other reserve US\$'000	Currency translation reserve US\$'000	Retained earnings US\$'000	Company US\$'000	Non- controlling interests US\$'000	Total equity US\$'000	
Balance at 31 December 2016	72,648	(736)	1,276	(257)	3,670	59	(771)	(2,683)	46,719	119,925	4,862	124,787	
Effect of transition to SFRS(I) 1	-	-	-	-	-	-	-	2,683	(2,683)	-	-	-	
Balance at 1 January 2017	72,648	(736)	1,276	(257)	3,670	59	(771)	-	44,036	119,925	4,862	124,787	
Profit for the year	-	-	-	-	-	-	-	-	9,550	9,550	1,996	11,546	
Other comprehensive income/(loss):													
Defined benefit plans' actuarial gains	-	-	-	108	-	-	-	-	-	108	-	108	
Net loss on fair value changes on financial assets, available-for-sale	-	-	-	-	(660)	-	-	-	-	(660)	-	(660)	
Cumulative loss reclassified from equity on impairment of financial assets, available-for-sale	-	-	-	-	1,444	-	-	-	-	1,444	-	1,444	
Share of associated companies' other comprehensive income	-	-	-	-	-	-	-	532	-	532	-	532	
Share of joint venture's other comprehensive income	-	-	-	-	-	-	-	126	-	126	-	126	
Currency translation differences	-	-	-	-	-	-	-	9,501	-	9,501	(48)	9,453	
Other comprehensive income/(loss) for the year, net of tax	-	-	-	108	784	-	-	10,159	-	11,051	(48)	11,003	
Total comprehensive income for the year	-	-	-	108	784	-	-	10,159	9,550	20,601	1,948	22,549	
Contributions by and distributions to owners:													
One-tier tax-exempt final cash dividend for year 2016	-	-	-	-	-	-	-	-	(1,091)	(1,091)	-	(1,091)	
One-tier tax-exempt interim cash dividend for year 2017	-	-	-	-	-	-	-	-	(1,914)	(1,914)	-	(1,914)	
Total distributions to owners	-	-	-	-	-	-	-	-	(3,005)	(3,005)	-	(3,005)	
Others:													
Investment in subsidiaries by non-controlling interests	-	-	-	-	-	-	-	-	-	-	717	717	
Acquisition of additional interests in a subsidiary from non-controlling interest	-	-	-	-	-	-	6	-	-	6	(5)	1	
Closure/disposal of subsidiaries	-	-	-	-	-	-	-	-	-	-	(34)	(34)	
Total others	-	-	-	-	-	-	6	-	-	6	678	684	
Balance at 31 December 2017	72,648	(736)	1,276	(149)	4,454	59	(765)	10,159	50,581	137,527	7,488	145,015	

The accompanying notes form an integral part of these financial statements

Consolidated Statement of Cash Flows

For the financial year ended 31 December 2018

	Note	2018 US\$'000	2017 US\$'000
Cash flows from operating activities			
Profit before income tax		24,163	15,671
Adjustments for:			
Amortisation of computer software license costs		266	338
Amortisation of distribution rights		14	14
Depreciation of property, plant and equipment		2,930	2,455
Property, plant and equipment written off		3	5
(Gain)/loss on disposal of property, plant and equipment		(13)	18
Fair value loss on investment properties		–	9
Fair value gain on convertible bond		(941)	–
Fair value loss on financial assets, at fair value through profit or loss		2,560	8
Gain on sale of financial assets, at fair value through profit or loss		(3)	–
Dividend income from financial assets, at fair value through profit or loss		(47)	–
Dividend income from financial assets, available-for-sale		–	(94)
Impairment loss on financial assets, available-for-sale		–	1,444
Impairment losses on goodwill arising from acquisition of subsidiaries		4,526	900
Reversal of contingent consideration payable for acquisition of a subsidiary in previous financial year		–	(672)
Gain on closure/disposal of subsidiaries		–	(105)
Gain on disposal of an associated company		(18,258)	–
Gain on dilution of interests in an associated company		–	(24)
Impairment loss on investments in associated companies		5,437	–
Fair value loss on derivative financial instruments		666	333
Provision for defined benefit plans liabilities		497	972
Interest income		(2,264)	(1,571)
Interest expense		14,318	10,290
Share of results of associated companies		335	446
Share of loss of joint venture		543	34
Operating cash flow before working capital changes		34,732	30,471
Change in working capital			
Trade and other receivables		38,796	(5,814)
Financial assets, at fair value through profit or loss	14	(70,224)	–
Inventories		23,425	(13,234)
Other current assets		444	(137)
Other assets (non-current)		(8)	(104)
Trade and other payables		(12,028)	(17,345)
Cash from/(used in) operations		15,137	(6,163)
Income tax paid	9(c)	(4,475)	(5,175)
Net cash from/(used in) operating activities		10,662	(11,338)

The accompanying notes form an integral part of these financial statements

Consolidated Statement of Cash Flows

For the financial year ended 31 December 2018

	Note	2018 US\$'000	2017 US\$'000
Cash flows from investing activities			
Payments for intangible assets (computer software license costs)		(265)	(102)
Payments for property, plant and equipment		(1,534)	(1,115)
Proceeds from disposal of property, plant and equipment		92	5
Proceeds from sale of financial assets, at fair value through profit or loss		542	–
Net cash outflow on closure/disposal of subsidiaries	21(e)	–	(119)
Proceeds from disposal of interests in an associated company	19(c)	29,055	–
Net cash outflow on acquisition of subsidiaries	21(a)	–	(100)
Payments for financial assets, at fair value through profit or loss		(1,777)	–
Payments for investment in a joint venture	20	–	(2,344)
Payments for financial assets, at fair value through profit or loss		–	(7)
Payments for financial assets, at fair value through other comprehensive income		(1,800)	–
Dividends received from financial assets, at fair value through profit or loss		47	–
Dividends received from financial assets, available-for-sale		–	94
Interest received		2,261	1,543
Net cash from/(used in) investing activities		26,621	(2,145)
Cash flows from financing activities			
Subscription of interests in subsidiaries by non-controlling interests	35	60	679
Payment for acquisition of additional interests in subsidiaries from a non-controlling interest	21(b)	(35)	1
Dividends paid	36	(12,289)	(3,005)
Dividends paid to non-controlling interest holders	35	(287)	–
Proceeds from bank borrowings		969,669	867,155
Repayment of bank borrowings		(993,511)	(834,389)
Repayment of finance lease liabilities		(44)	(15)
Increase in pledged deposits		–	(923)
Interest paid		(14,399)	(10,278)
Net cash (used in)/provided by financing activities		(50,836)	19,225
Net (decrease)/increase in cash and cash equivalents held		(13,553)	5,742
Cash and cash equivalents at the beginning of the year		72,157	65,153
Effect of currency translation on cash and cash equivalents		(350)	1,262
Cash and cash equivalents at the end of the year	11	58,254	72,157

The accompanying notes form an integral part of these financial statements

Notes to The Financial Statements

For the financial year ended 31 December 2018

These notes form an integral part of and should be read in conjunction with the accompanying financial statements.

1. General information

Serial System Ltd (the "Company") is incorporated and domiciled in Singapore. The address of its registered office and principal place of business is as follows:

8 Ubi View #05-01
Serial System Building
Singapore 408554

The Company is listed on the Singapore Exchange Securities Trading Limited ("SGX-ST").

The principal activities of the Company are that of investment holding and provision of management services to its subsidiaries. The principal activities of its subsidiaries are shown in Note 21.

2. Significant accounting policies

2.1 Basis of preparation

These financial statements have been prepared in accordance with the Singapore Financial Reporting Standards International ("SFRS(I)") and the provisions of the Singapore Companies Act, Chapter 50. The financial statements have been prepared under the historical cost convention, except as disclosed in the accounting policies below.

The preparation of financial statements in conformity with SFRS(I) requires management to exercise its judgement in the process of applying the Group's accounting policies. It also requires the use of certain critical accounting estimates and assumptions. The areas involving a higher degree of judgement or complexity, or areas where assumptions and estimates are significant to the financial statements are disclosed in Note 4.

For the financial year ended 31 December 2018, the Group has adopted the following new and revised SFRS(I) which are relevant to the Group and mandatory for application.

(a) Adoption of SFRS(I)

The Group has adopted SFRS(I) on 1 January 2018. These financial statements for the financial year are the first set of financial statements the Group prepared in accordance with SFRS(I). The Group's previously issued financial statements for periods up to and including the financial year ended 31 December 2017 were prepared in accordance with Singapore Financial Reporting Standards ("SFRS").

In adopting SFRS(I) on 1 January 2018, the Group is required to apply all of the specific transition requirements in SFRS(I) 1 First-time Adoption of SFRS(I). Under SFRS(I) 1, these financial statements are required to be prepared using accounting policies that comply with SFRS(I) effective as at 31 December 2018. The same accounting policies are applied throughout all periods presented in these financial statements, subject to the mandatory exceptions and optional exemptions under SFRS(I) 1.

The Group's opening statement of financial position has been prepared as at 1 January 2017, which is the Group's date of transition to SFRS(I) ("date of transition").

Notes to The Financial Statements

For the financial year ended 31 December 2018

2. Significant accounting policies (continued)

2.1 Basis of preparation (continued)

(a) Adoption of SFRS(I) (continued)

Optional exemptions applied on adoption of SFRS(I)

For first-time adopters, SFRS(I) 1 allows the exemptions from the retrospective application of certain requirements under SFRS(I). The Group has applied the following exemptions:

- (i) SFRS(I) 3 Business Combinations has not been applied to business combinations that occurred before the date of transition on 1 January 2017. The same classification as in its previous SFRS financial statements has been adopted.
- (ii) SFRS(I) 1-21 The Effects of Changes in Foreign Exchange Rates has not been applied retrospectively to fair value adjustments and goodwill from business combinations that occurred before the date of transition to SFRS(I) on 1 January 2017. Such fair value adjustments and goodwill continue to be accounted for using the same basis as under SFRS 21.
- (iii) Cumulative translation differences for all foreign operations are reset to zero as at the date of transition to SFRS(I) on 1 January 2017.
- (iv) The Group has not reassessed the determination of whether an arrangement contained a lease in accordance with SFRS(I) INT 4 Determining whether an Arrangement contains a Lease.
- (v) The Group has elected to apply the requirements in SFRS(I) 1-23 Borrowing Costs from the date of transition to SFRS(I) on 1 January 2017. Borrowing costs that were accounted for previously under SFRS prior to the date of transition are not restated.
- (vi) The Group elected the short-term exemption to adopt SFRS(I) 9 on 1 January 2018. Accordingly, the information presented for 31 December 2017 is presented, as previously reported, under SFRS 39 Financial Instruments: Recognition and Measurement. Arising from this election, the Group is exempted from complying with SFRS(I) 7 Financial Instruments: Disclosures to the extent that the disclosures as required by SFRS(I) 7 relate to the items within the scope of SFRS(I) 9.
- (vii) The Group has elected to apply the transitional provisions under paragraph C5 of SFRS(I) 15 at 1 January 2018 and have used the following practical expedients as allowed under SFRS(I) 1 as follows:
 - the Group has not restated those completed contracts that began and ended in the same annual reporting in 31 December 2017 and contracts completed at 1 January 2017;
 - for completed contracts that have variable consideration, the Group has used the transaction price at the date the contract was completed, rather than estimating the variable consideration amounts in the comparative reporting period;
 - for contracts which were modified before the 1 January 2017, the Group did not retrospectively restate the contract for those contract modifications; and
 - for the year ended 31 December 2017, the Group did not disclose the amount of transaction price allocated to the remaining performance obligations and explanation of when the Group expects to recognise that amount as revenue.

Notes to The Financial Statements

For the financial year ended 31 December 2018

2. Significant accounting policies (continued)

2.1 Basis of preparation (continued)

(b) Reconciliation of the Group's equity reported in accordance with SFRS to SFRS(I)

As at 1 January 2017	The Group		The Company	
	Reported under SFRS	Reported under SFRS(I)	Reported under SFRS	Reported under SFRS(I)
	US\$'000	US\$'000	US\$'000	US\$'000
EQUITY				
Capital and reserves attributable to equity holders of the Company				
Currency translation reserve	(2,683)	–	17,589	–
Retained earnings	46,719	44,036	14,109	31,698

The Group and the Company elected to deem the cumulative translation differences for all foreign operations to be zero as at the date of transition to SFRS(I) on 1 January 2017. As a result, the Group's currency translation reserves and retained earnings as at 1 January 2017 increased/decreased by US\$2,683,000 and the Company's currency translation reserves and retained earnings as at 1 January 2017 decreased/increased by US\$17,589,000 respectively.

(c) Adoption of SFRS(I) 15 Revenue from Contracts with Customers

SFRS(I) 15 establishes a five-step model to account for revenue arising from contracts with customers, and introduces new contract cost guidance. Under SFRS(I) 15, revenue is recognised at an amount that reflects the consideration which an entity expects to be entitled in exchange for transferring goods or services to a customer.

The Group adopted SFRS(I) 15 in its financial statements using the retrospective approach. All requirements of SFRS(I) 15 have been applied retrospectively, except for the application of the practical expedients as described in Note 2.1(a)(vii). The Group's main principle revenue stream is sale of electronic components, the performance obligation of which is substantially completed at the same point of time as the respective revenue is recognised in accordance with Note 2.4 to the financial statements. The adoption of SFRS(I) 15 did not have material impact on the financial performance or financial position of the Group.

(d) Adoption of SFRS(I) 9 Financial Instruments

SFRS(I) 9 sets out requirements for recognising and measuring financial assets, financial liabilities and some contracts to buy or sell non-financial items. It also introduces a new 'expected credit loss' model and a new general hedge accounting model. The Group adopted SFRS(I) 9 from 1 January 2018.

As disclosed in Note 2.1(a)(vi), the Group has elected to apply the short-term exemption to adopt SFRS(I) 9 on 1 January 2018. Accordingly, the requirements of SFRS 39 Financial Instruments: Recognition and Measurement will continue to apply to financial instruments up to the financial year ended 31 December 2017. Additionally, the Group is exempted from complying with SFRS(I) 7 Financial Instruments: Disclosure for the comparative period to the extent that the disclosures required by the SFRS(I) 7 relate to the items within scope of SFRS(I) 9. As a result, the requirements under SFRS are applied in place of the requirements under the SFRS(I) 7 and SFRS(I) 9 to comparative information about items within the scope of the SFRS(I) 9.

Notes to The Financial Statements

For the financial year ended 31 December 2018

2. Significant accounting policies (continued)

2.1 Basis of preparation (continued)

(d) Adoption of SFRS(I) 9 Financial Instruments (continued)

Changes in accounting policies resulting from the adoption of SFRS(I) 9 have been generally applied by the Group retrospectively, except as described below:

- The following assessments were made on the basis of facts and circumstances that existed at 1 January 2018.
 - The determination of the business model within which a financial asset is held;
 - The determination of whether the contractual terms of a financial asset give rise to cash flows that are solely payments of principal and interest on the principal amount outstanding;
 - The designation of an equity investment that is not held-for-trading as at fair value through other comprehensive income; and
 - The designation and revocation of previous designations of certain financial assets and financial liabilities measured at fair value through profit or loss.
- If a debt instrument has low credit risk at 1 January 2018, the Group had assumed that the credit risk on the asset has not increased significantly since its initial recognition.

The adoption of SFRS(I) 9 has not had a significant effect on the Group's accounting policies for financial liabilities.

Details of their impact on the Group's consolidated financial statements as well as the new requirements are described below.

(i) Classification and measurement of financial assets

Under SFRS(I) 9, financial assets are classified in the following categories: measured at amortised cost, fair value through other comprehensive income (equity instrument) or fair value through profit or loss. The classification of financial assets under SFRS(I) 9 is generally based on the business model in which a financial asset is managed and its contractual cash flow characteristics. SFRS(I) 9 eliminates the previous SFRS 39 categories of held-to-maturity, loans to associates and subsidiaries and available-for-sale. Under SFRS(I) 9, derivatives embedded in contracts where the host is a financial asset in the scope of the standard are never separated. Instead, the hybrid financial instrument as a whole is assessed for classification.

On the date of initial application of SFRS(I) 9 on 1 January 2018, the following table and the accompanying notes below explain the original measurement categories under SFRS 39 and the new measurement categories under SFRS(I) 9 for each class of the Group's and Company's financial assets as at 1 January 2018:

Notes to The Financial Statements

For the financial year ended 31 December 2018

2. Significant accounting policies (continued))

2.1 Basis of preparation (continued)

(d) Adoption of SFRS(I) 9 Financial Instruments (continued)

(i) Classification and measurement of financial assets (continued)

	Note	Measurement category		Carrying amount		Differences
		SFRS 39	SFRS(l) 9	SFRS 39	SFRS(l) 9	
				US\$'000	US\$'000	US\$'000
The Group						
Current financial assets						
Cash and cash equivalents	(e)	Loans and receivables	Amortised cost	73,080	73,080	–
Trade and other receivables	(d)&(e)	Loans and receivables	Amortised cost	221,843	173,943	47,900
Trade and other receivables	(d)	Loans and receivables	FVPL	–	47,900	(47,900)
Financial assets, at FVPL		FVPL	FVPL	810	810	–
Other current assets ⁽¹⁾	(e)	Loans and receivables	Amortised cost	675	675	–
Non-current financial assets						
Financial assets, at FVPL	(a)	FVPL	FVPL	–	5,943	(5,943)
Financial assets, at FVPL - Other investment	(c)	Loans and receivables	FVPL	–	615	(615)
Financial assets, at FVOCI	(b)	FVOCI	FVOCI	–	951	(951)
Financial assets, AFS						
- Listed equity securities	(a)	AFS	FVPL	5,943	–	5,943
- Unlisted equity securities	(b)	AFS	FVOCI	951	–	951
Other assets ⁽²⁾	(c)&(e)	Loans and receivables	Amortised cost	1,028	413	615
The Company						
Current financial assets						
Cash and cash equivalents		Loans and receivables	Amortised cost	8,478	8,478	–
Trade and other receivables		Loans and receivables	Amortised cost	15,703	15,703	–
Other current assets ⁽¹⁾		Loans and receivables	Amortised cost	8	8	–
Non-current financial assets						
Loans and other receivables		Loans and receivables	Amortised cost	41,370	41,370	–

(1) Excludes prepayments which are non-financial assets

(2) Excludes club memberships which are non-financial assets

Notes to The Financial Statements

For the financial year ended 31 December 2018

2. Significant accounting policies (continued)

2.1 Basis of preparation (continued)

(d) Adoption of SFRS(I) 9 Financial Instruments (continued)

(i) Classification and measurement of financial assets (continued)

The reclassifications did not result in adjustments in carrying amounts of the financial assets on 1 January 2018. The transition impact to statements of financial position and consolidated statement of changes in equity are summarised as follows:

	Note	Financial Assets				Equity	
		Fair value through profit or loss (FVPL) US\$'000	Available -for-sale (AFS) US\$'000	Amortised cost* US\$'000	Fair value through other comprehensive income (FVOCI) US\$'000	Fair value reserve US\$'000	Retained earnings US\$'000
The Group							
At 31 December 2017 before adoption of the SFRS(I) 9		810	6,894	296,626	–	4,454	50,581
Reclassified:							
- listed equity securities from AFS to FVPL	(a)	5,943	(5,943)	–	–	(4,454)	4,454
- unlisted equity securities from AFS to FVOCI	(b)	–	(951)	–	951	–	–
- other investment from amortised cost to FVPL	(c)	615	–	(615)	–	–	–
- trade receivables from amortised cost to FVPL	(d)	47,900	–	(47,900)	–	–	–
At 1 January 2018 after adoption of the SFRS(I) 9		55,268	–	248,111	951	–	55,035

* Comprised cash and cash equivalents, trade and other receivables, other current assets and other non-current assets.

- Investments in certain listed equity securities are reclassified from the "available-for-sale" category to "fair value through profit or loss".
- The Group elected to recognise changes in the fair value of some of its unlisted equity securities previously classified as "available-for-sale" in "fair value through other comprehensive income". These investments are not held for trading and are strategic investments.
- The Group reclassified its other investment relating to an interest in a residential and commercial property development investment on two pieces of land located in Phnom Penh, Cambodia to fair value through profit or loss. The objective of the Group's business model is neither to hold the investment to collect contractual cash flows nor does the asset's contractual cash flows represent only payments of principal and interest.
- The Group reclassified certain trade receivables from loans and receivables measured at "amortised cost" category to "fair value through profit or loss" as the objective of the Group's business model is achieved by selling these financial assets.
- The remaining financial assets that were classified as loans and receivables under SFRS 39 are now classified as "amortised cost" under SFRS(I) 9. There are no changes to the carrying amounts of these financial assets.

There were no material adjustments to the Group's statement of cash flows arising from the transition from SFRS to SFRS(I) and the initial application of SFRS(I) 9.

Notes to The Financial Statements

For the financial year ended 31 December 2018

2. Significant accounting policies (continued)

2.1 Basis of preparation (continued)

(d) Adoption of SFRS(I) 9 Financial Instruments (continued)

(ii) Impairment of financial assets

SFRS(I) 9 replaces the “incurred loss” model in SFRS 39 with an “expected credit loss” model. The new impairment model applies to financial assets measured at amortised cost and intra-group financial guarantee contracts, but not to equity investments. The adoption of the new impairment model under SFRS(I) does not affect the carrying amount of intra-group financial guarantee contracts at 1 January 2018, as the amount initially recognised less the cumulative amount of income recognised in accordance with SFRS(I) 15 is higher than the estimated expected credit losses amount.

Based on the assessment made, the application of SFRS(I) 9 impairment requirements at 1 January 2018 did not have a material impact on allowance for impairment of trade and other receivables calculated under SFRS 39.

2.2 Group accounting

(a) Subsidiaries

Subsidiaries are all entities (including structured entities) over which the Group has control. The Group controls an entity when the Group is exposed to, or has rights to variable returns from its involvement with the entity and has the ability to affect those returns through its power over the entity. Subsidiaries are fully consolidated from the date on which control is transferred to the Group. They are de-consolidated from the date on which control ceases.

The Group reassesses whether or not it controls an investee if facts and circumstances indicate that there are changes to one or more of the three elements of control listed above.

In preparing the consolidated financial statements, transactions, balances and unrealised gains on transactions between group companies are eliminated. Unrealised losses are also eliminated unless the transaction provides evidence of an impairment indicator of the asset transferred. Accounting policies of subsidiaries have been changed where necessary to ensure consistency with the policies adopted by the Group.

Non-controlling interests are that part of the net results of operations and net assets of a subsidiary attributable to the interests which are not owned directly or indirectly by the equity holders of the Company. They are shown separately in the consolidated income statement, consolidated statement of comprehensive income, consolidated statement of financial position and consolidated statement of changes in equity. Total comprehensive income is attributed to the non-controlling interests based on their respective interests in a subsidiary, even if this results in the non-controlling interests having a deficit balance.

(b) Acquisition of businesses

The acquisition method of accounting is used to account for business combinations entered into by the Group.

The consideration transferred for the acquisition of a subsidiary or business comprises the fair values of the assets transferred, the liabilities incurred and the equity interests issued by the Group. The consideration transferred also includes the fair value of any contingent consideration arrangement and the fair value of any pre-existing equity interest in the subsidiary at the acquisition date.

Under the revised SFRS(I) 3 Business Combinations, when the consideration transferred by the Group in a business combination includes assets or liabilities resulting from a contingent consideration arrangement, the contingent consideration is measured at its acquisition date fair value and included as part of the consideration transferred in a business combination. All subsequent changes in debt contingent consideration are recognised in the income statement, rather than the goodwill.

Notes to The Financial Statements

For the financial year ended 31 December 2018

2. Significant accounting policies (continued)

2.2 Group accounting (continued)

(b) Acquisition of businesses (continued)

Acquisition related costs are expensed as incurred.

Identifiable assets acquired and liabilities and contingent liabilities assumed in a business combination are, with limited exceptions, measured initially at their fair values at the acquisition date.

On an acquisition-by-acquisition basis, the Group recognises any non-controlling interest in the acquiree at the date of acquisition either at fair value or at the non-controlling interest's proportionate share of the acquiree's net identifiable assets.

The excess of the consideration transferred, the amount of any non-controlling interest in the acquiree and the acquisition-date fair value of any previous equity interest in the acquiree over the fair value of the net identifiable assets acquired is recorded as goodwill on the statement of financial position.

(c) Disposals of subsidiaries or businesses

When a change in the Group's ownership interest in a subsidiary results in a loss of control over the subsidiary, the assets and liabilities of the subsidiary including any goodwill are derecognised. Amounts recognised in other comprehensive income in respect of that entity are also reclassified to the income statement or transferred directly to retained earnings if required by a specific Standard.

Any retained equity interest in the entity is remeasured at fair value. The difference between the carrying amount of the retained interest at the date when control is lost and its fair value is recognised in the income statement.

(d) Transactions with non-controlling interests

Changes in the Group's ownership interest in a subsidiary that do not result in a loss of control over the subsidiary are accounted for as transactions with equity owners of the Group. Any difference between the change in the carrying amounts of the non-controlling interests and the fair value of the consideration paid or received is recognised in a separate reserve within equity attributable to the equity holders of the Company.

(e) Associated companies and joint ventures

Associated companies are entities over which the Group has significant influence, but not control, generally accompanied by a shareholding giving rise to between and including 20% and 50% of the voting rights.

Joint ventures are entities over which the Group has joint control as a result of contractual arrangements, and rights to the net assets of the entities.

Investments in associated companies and joint ventures are accounted for in the consolidated financial statements using the equity method of accounting less impairment losses, if any. Investments in associated companies and joint ventures in the consolidated statement of financial position includes goodwill (net of accumulated amortisation) identified on acquisition. Please refer to the paragraph "Intangible assets - Goodwill" [Note 2.14(a)] for the Group's accounting policy on goodwill arising from the acquisition of associated companies and joint ventures.

Investments in associated companies and joint ventures are initially recognised at cost. The cost of an acquisition is measured at the fair value of the assets given, equity instruments issued or liabilities incurred or assumed at the date of exchange, plus costs directly attributable to the acquisition.

Notes to The Financial Statements

For the financial year ended 31 December 2018

2. Significant accounting policies (continued)

2.2 Group accounting (continued)

(e) Associated companies and joint ventures (continued)

In applying the equity method of accounting, the Group's share of its associated companies' or joint venture's post-acquisition profits or losses are recognised in the consolidated income statement and its share of post-acquisition movements in other comprehensive income is recognised in other comprehensive income directly. These post-acquisition movements are adjusted against the carrying amount of the investments. When the Group's share of losses in an associated company and joint venture equals or exceeds its interest in the associated company or joint venture, including any other unsecured non-current receivables, the Group does not recognise further losses, unless it has obligations or has made payments on behalf of the associated company or joint venture.

Unrealised gains on transactions between the Group and its associated companies and joint ventures are eliminated to the extent of the Group's interest in the associated companies and joint ventures. Unrealised losses are also eliminated unless the transactions provide evidence of an impairment of the asset transferred. Accounting policies of associated companies and joint ventures have been changed where necessary to ensure consistency with accounting policies adopted by the Group.

Investments in associated companies and joint ventures are derecognised when the Group loses significant influence. Any retained equity interest in the equity is remeasured at its fair value. The difference between the carrying amount of the retained investment at the date when significant influence is lost and its fair value and any proceeds from disposal is recognised in the income statement.

Gains or losses arising from partial disposals or dilutions in investments in associated companies and joint ventures in which significant influence is retained are recognised in the income statement.

2.3 Currency translation

(a) Functional and presentation currency

Items included in the financial statements of each entity in the Group are measured using the currency of the primary economic environment in which the entity operates (the "functional currency"). The financial statements are presented in United States dollar (US\$), which is the Company's functional and presentation currency. All values are rounded to the nearest thousand (US\$'000) except when otherwise indicated.

(b) Transactions and balances

Transactions in a currency other than the functional currency ("foreign currency") are recognised at the rates of exchange prevailing at the dates of transactions. At the reporting date, monetary items denominated in foreign currencies are retranslated at the rates prevailing at that date. Currency exchange differences resulting from the settlement of such transactions and from the translation of monetary assets and liabilities denominated in foreign currencies at the closing rates at the reporting date are recognised in the consolidated income statement, unless they arise from borrowings in foreign currencies, and other currency instruments designated and qualified as net investment hedges and net investment in foreign operations. Those currency translation differences are recognised in other comprehensive income and accumulated in the currency translation reserve in the consolidated financial statement and transferred to consolidated income statement as part of the gain or loss on disposal of the foreign operation.

Non-monetary items carried at fair value that are denominated in foreign currencies are retranslated at the rates prevailing at the date when the fair value are determined. Non-monetary items that are measured in terms of historical cost in a foreign currency are not retranslated.

Notes to The Financial Statements

For the financial year ended 31 December 2018

2. Significant accounting policies (continued)

2.3 Currency translation (continued)

(c) Translation of Group entities' financial statements

The results and financial position of all the Group entities (none of which has the currency of a hyperinflationary economy) that have a functional currency different from the presentation currency are translated into the presentation currency as follows:

- (i) assets and liabilities are translated at the closing rates at the reporting date;
- (ii) income and expenses are translated at average exchange rates (unless the average is not a reasonable approximation of the cumulative effect of the rates prevailing on the transaction dates, in which case income and expenses are translated using the exchange rates at the dates of the transactions); and
- (iii) all resulting exchange differences are recognised in other comprehensive income and accumulated in the currency translation reserve within equity. These currency translation differences are reclassified to the consolidated income statement on disposal (i.e. a disposal involving loss of control) of the entity giving rise to such reserve. Any currency translation differences that have previously been attributed to non-controlling interests are derecognised, but they are not reclassified to consolidated income statement.

In the case of a partial disposal (i.e. no loss of control) of a subsidiary that includes a foreign operation, the proportionate share of accumulated exchange differences are re-attributed to non-controlling interests and are not recognised in the consolidated income statement. For all other partial disposals (i.e. of associates or jointly controlled entities not involving a change of accounting basis), the proportionate share of the accumulated exchange differences is reclassified to consolidated income statement.

Goodwill and fair value adjustments arising on the acquisition of a foreign operation are treated as assets and liabilities of the foreign operation and translated at the closing rate at the reporting date.

2.4 Revenue recognition

Revenue is measured at the fair value of the consideration received or receivable for the sales of goods and rendering of services in the ordinary course of the Group's activities.

If contracts involve the sale of multiple elements, the transaction price will be allocated to each performance obligation based on their relative stand-alone selling prices. If the stand-alone selling prices are not directly observable, they are estimated based on expected cost plus a margin or adjusted market assessment approach, depending on the availability of observable information.

Revenue is recognised when the Group satisfies a performance obligation by transferring a promised good or service to the customer, which is when the customer obtains control of the good or service. A performance obligation may be satisfied at a point in time or over time. The amount of revenue recognised is the amount allocated to the satisfied performance obligation.

Control of the goods or services is transferred over time if the Group's performance: (i) provides all the benefits received and consumed simultaneously by the customer; (ii) creates or enhances an asset that the customer controls as the Group performs; or (iii) does not create an asset with an alternative use to the Group and the Group has an enforceable right to payment for performance completed to date.

If control of the goods or services transfers over time, revenue is recognised over the period of the contract by reference to the progress towards complete satisfaction of that performance obligation. Otherwise, revenue is recognised at a point in time when the customer obtains control of the goods or services. Specific criteria where revenue is recognised are described below.

Notes to The Financial Statements

For the financial year ended 31 December 2018

2. Significant accounting policies (continued)

2.4 Revenue recognition (continued)

(a) Sale of goods

Sales of goods are recognised when a group entity has transferred control over products to the customer, the customer has accepted the products, there is no unfulfilled obligation that could affect the customer's acceptance of the products, the amount of sales can be reliably measured and it is probable that future economic benefits will flow to the entity. Revenue from sales is based on the price specified in the sale contracts, net of estimated volume discounts, if any. Accumulated experience is used to estimate the likelihood and provide for sales return for the goods sold at the time of sale.

A receivable is recognised when the goods are delivered as this is the point in time that the consideration is unconditional because only the passage of time is required before the payment is due.

(b) Other income

Income derived from commission and service income, rebate income from suppliers, warehouse management, rental income and advertising and promotion income are recognised when the services are rendered over time, and in accordance with the substance of the relevant agreements. Rental income and advertising and promotion income are recognised on a straight-line basis over the period of the lease term.

(c) Dividend income

Dividend income is recognised at a point in time when the right to receive payment is established.

2.5 Income taxes

Income tax expense represents the sum of the tax currently payable and deferred tax.

Current income tax liabilities are recognised at the amounts expected to be paid to or recovered from the tax authorities, using the tax rates and tax laws that have been enacted or substantially enacted by the reporting date.

Deferred income tax is recognised for all temporary differences arising between the tax bases of assets and liabilities and their carrying amounts in the consolidated financial statements except when the deferred income tax arises from the initial recognition of goodwill or an asset or liability in a transaction that is not a business combination and affects neither accounting nor taxable profit or loss at the time of the transaction.

Deferred income tax liabilities are recognised on temporary differences arising on investments in subsidiaries, associated companies and joint ventures, except where the Group is able to control the timing of the reversal of the temporary difference and it is probable that the temporary difference will not reverse in the foreseeable future.

Deferred income tax assets are recognised to the extent that it is probable that future taxable profit will be available against which the deductible temporary differences and tax losses can be utilised. The carrying amount of deferred income tax assets is reviewed at each reporting date and reduced to the extent that it is no longer probable that sufficient taxable profits will be available to allow all or part of the asset to be recovered.

Deferred income tax is measured:

- (i) at the tax rates that are expected to apply when the related deferred income tax asset is realised or the deferred income tax liability is settled, based on tax rates and tax laws that have been enacted or substantially enacted by the reporting date; and

Notes to The Financial Statements

For the financial year ended 31 December 2018

2. Significant accounting policies (continued)

2.5 Income taxes (continued)

Deferred income tax is measured: (continued)

- (ii) based on the tax consequence that will follow from the manner in which the Group expects, at the reporting date, to recover or settle the carrying amounts of its assets and liabilities except for investment properties. Investment property measured at fair value is presumed to be recovered entirely through sale.

Current and deferred income taxes are recognised as income or expenses in the consolidated income statement for the financial period, except to the extent that the tax arises from a business combination or a transaction which is recognised directly in equity. Deferred tax arising from a business combination is adjusted against goodwill on acquisition.

2.6 Financial assets (accounting for financial assets from 1 January 2018)

(a) Classification and measurement

The Group classifies its financial assets in the following measurement categories:

- Amortised cost;
- Fair value through other comprehensive income; and
- Fair value through profit or loss.

The classification depends on the Group's business model for managing the financial assets as well as the contractual terms of the cash flows of the financial assets. The Group reclassifies debt instruments when and only when its business model for managing those assets changes.

Financial assets with embedded derivatives are considered in their entirety when determining their cash flows are solely payment of principal and interest.

Initial recognition

At initial recognition, the Group measures a financial asset at its fair value plus, in the case of a financial asset not at fair value through profit or loss, transactions costs that are directly attributable to the acquisition of the financial asset. Transaction costs of financial assets carried at fair value through profit or loss are expensed in the consolidated income statement.

Trade receivables are measured at the amount of consideration to which the Group expects to be entitled in exchange for transferring promised goods or services to a customer, excluding amounts collected on behalf of a third party, if the trade receivables do not contain a significant financing component at initial recognition.

Subsequent measurement

(i) Debt instruments

The subsequent measurement categories depends on the Group's business model for managing the asset and the cash flow characteristics of the asset.

For debt instruments measured at amortised cost, these are held for collection of contractual cash flows where those cash flows represent solely payments of principal and interest and are measured at amortised cost. A gain or loss on a debt instrument that is subsequently measured at amortised cost and is not part of a hedging relationship is recognised in the consolidated income statement when the asset is derecognised or impaired. Interest income from these financial assets is included in finance income using the effective interest rate method.

Notes to The Financial Statements

For the financial year ended 31 December 2018

2. Significant accounting policies (continued)

2.6 Financial assets (accounting for financial assets from 1 January 2018) (continued)

(a) Classification and measurement (continued)

Subsequent measurement (continued)

(i) Debt instruments (continued)

For debt instruments measured at fair value through profit or loss, the movement in fair values and interest income that is not part of a hedging relationship is recognised in the consolidated income statement in the period in which it arises.

(ii) Equity instruments

The Group subsequently measures all its equity investments at their fair values. Equity instruments are classified as fair value through profit or loss with movements in their fair values recognised in the consolidated income statement, except where the Group has elected to classify the investments as fair value through other comprehensive income. Dividends from equity investments are recognised in the consolidated income statement.

(b) Impairment

The Group assesses on a forward looking basis the expected credit losses associated with its debt instruments measured at amortised cost and intra-group financial guarantee contracts.

Loss allowances of the Group are measured on either of the following bases:

- 12-month expected credit losses – represents the expected credit losses that result from default events that are possible within the 12 months after the reporting date (or for a shorter period if the expected life of the instrument is less than 12 months); or
- Lifetime expected credit losses – represents the expected credit losses that will result from all possible default events over the expected life of a financial instrument or contract asset.

The impairment methodology applied depends on whether there has been a significant increase in credit risk.

Simplified approach – Trade receivables

The Group applies the simplified approach to provide expected credit losses for all trade receivables as permitted by SFRS(I) 9. The simplified approach requires expected lifetime losses to be recognised from initial recognition of the receivables. The expected credit losses on these financial assets are estimated using a provision matrix based on the Group's historical credit loss experience, adjusted for factors that are specific to the debtors, general economic conditions and an assessment of both the current as well as the forecast direction of conditions at the reporting date, including the time value of money where appropriate.

General approach – Other financial instruments and financial guarantee contracts

The Group applies the general approach to provide for expected credit losses on all other financial instruments and financial guarantee contracts, which requires the loss allowance to be measured at an amount equal to 12-month expected credit losses at initial recognition.

At each reporting date, the Group assesses whether the credit risk of a financial instrument has increased significantly since initial recognition. When credit risk has increased significantly since initial recognition, loss allowance is measured at an amount equal to lifetime expected credit losses. In assessing whether the credit risk of a financial asset has increased significantly since initial recognition and when estimating expected credit losses, the Group considers reasonable and supportable information that is relevant and available without undue cost or effort. This includes both quantitative and qualitative information that is reasonable and supportable, including the Group's historical experience and forward-looking information that is available without undue cost or effort.

Notes to The Financial Statements

For the financial year ended 31 December 2018

2. Significant accounting policies (continued)

2.6 Financial assets (accounting for financial assets from 1 January 2018) (continued)

(b) Impairment (continued)

General approach – Other financial instruments and financial guarantee contracts (continued)

If credit risk has not increased significantly since initial recognition or if the credit quality of the financial instruments improves such that there is no longer a significant increase in credit risk since initial recognition, loss allowance is measured at an amount equal to 12-month expected credit losses.

The Company considers a financial guarantee contract to be in default when the debtor of the loan is unlikely to pay its credit obligations to the creditor and the Company in full, without recourse by the Company to actions such as realising security (if any is held). The Company only applies a discount rate if, and to the extent that, the risks are not taken into account by adjusting the expected cash shortfalls.

The maximum period considered when estimating expected credit losses is the maximum contractual period over which the Group is exposed to credit risk.

Credit-impaired financial assets

A financial asset is credit-impaired when one or more events that have a detrimental impact on the estimated future cash flows of the financial asset have occurred. At each reporting date, the Group assesses whether financial assets carried at amortised cost are credit-impaired. The evidence includes the observable data about the significant financial difficulty of the borrower and default or past due event.

Measurement of expected credit losses

Expected credit losses are probability-weighted estimates of credit losses. Credit losses are measured at the present value of all cash shortfalls (i.e. the difference between the cash flows due to the entity in accordance with the contract and the cash flows that the Group expects to receive). Expected credit losses are discounted at the effective interest rate of the financial asset.

Write-off policy

The Group writes off a financial asset when there is information indicating that the counterparty is in severe financial difficulty and there is no realistic prospect of recovery. Financial assets written off may still be subject to enforcement activities under the Group's recovery procedures, taking into account legal advice where appropriate. Any recoveries made are recognised in the consolidated income statement.

(c) Recognition and derecognition

Regular way purchases and sales of financial assets are recognised on trade date – the date on which the Group commits to purchase or sell the asset.

Financial assets are derecognised when the rights to receive cash flows from the financial assets have expired or have been transferred and the Group has transferred substantially all risks and rewards of ownership. On disposal of a financial asset measured at amortised cost, the difference between the net sale proceeds and its carrying amount is recognised in the consolidated income statement. On disposal of an equity investment, the difference between the carrying amount and sales proceeds is recognised in the consolidated income statement if there was no election made to recognise fair value changes in other comprehensive income. If there was an election made, any difference between the carrying amount and sales proceed amount would be recognised in other comprehensive income and transferred to retained profits along with the amount previously recognised in other comprehensive income relating to that asset.

Notes to The Financial Statements

For the financial year ended 31 December 2018

2. Significant accounting policies (continued)

2.7 Financial assets (accounting for financial assets up to 31 December 2017)

(a) Classification

The Group classifies its financial assets in the following categories: financial assets, at fair value through profit or loss, loans and receivables and financial assets, available-for-sale. The classification depends on the nature of the asset and the purpose for which the assets were acquired. Management determines the classification of its financial assets at initial recognition.

(i) Financial assets, at fair value through profit or loss

This category has two sub-categories: "financial assets held for trading", and those designated at "fair value through profit or loss at inception".

A financial asset is classified as held for trading if it is acquired principally for the purpose of selling in the short term. Financial assets designated as at fair value through profit or loss at inception are those that are managed and their performances are evaluated on a fair value basis, in accordance with a documented Group investment strategy. Derivatives are also categorised as held for trading unless they are designated as hedges. Assets in this category are presented as current assets if they are either held for trading or are expected to be realised within twelve months after the reporting date.

(ii) Loans and receivables

Loans and receivables are non-derivative financial assets with fixed or determinable payments that are not quoted in an active market. They are presented as current assets, except for those expected to be realised later than twelve months after the reporting date which are presented as non-current assets. Loans and receivables are presented as "trade and other receivables", "deposits", "cash and cash equivalents" and "loans and receivables" on the statement of financial position.

(iii) Financial assets, available-for-sale

Financial assets, available-for-sale are non-derivatives that are either designated in this category or not classified in any of the other categories. They are presented as non-current assets unless management intends to dispose of the assets within twelve months after the reporting date.

(b) Recognition and de-recognition

Regular way purchases and sales of financial assets are recognised on the trade-date - the date on which the Group commits to purchase or sell the asset.

Financial assets are derecognised when the rights to receive cash flows from the financial assets have expired or have been transferred and the Group has transferred substantially all risks and rewards of ownership. On disposal of a financial asset, the difference between the net sale proceeds and its carrying amount is recognised in the consolidated income statement. Any amount in the fair value reserve relating to that asset is reclassified to the consolidated income statement.

Trade receivables that are factored out to banks and other financial institutions with recourse to the Group are not derecognised until the recourse period has expired and the risks and rewards of the receivables have been fully transferred. The corresponding cash received from the financial institutions are recorded as borrowings. In a non-recourse factoring arrangement where the Group has transferred substantially all the risks and rewards of ownership of the receivables, the Group derecognises the receivables in their entirety.

Notes to The Financial Statements

For the financial year ended 31 December 2018

2. Significant accounting policies (continued)

2.7 Financial assets (accounting for financial assets up to 31 December 2017) (continued)

(c) Initial measurement

Financial assets are initially recognised at fair value plus transaction costs except for financial assets, at fair value through profit or loss, which are recognised at fair value. Transaction costs for financial assets, at fair value through profit or loss are recognised immediately as expenses.

(d) Subsequent measurement

Financial assets, both available-for-sale and at fair value through profit or loss are subsequently carried at fair value. Loans and receivables are subsequently carried at amortised cost using the effective interest method.

Changes in the fair value of the financial assets, at fair value through profit or loss, including the effects of currency translation, interest and dividends, are recognised in the consolidated income statement when the changes arise.

Interest and dividend income on financial assets, available-for-sale are recognised separately as income. Changes in the fair values of available-for-sale debt securities (i.e. monetary items) denominated in foreign currencies are analysed into currency translation differences on the amortised cost of the securities and other changes; the currency translation differences are recognised in the consolidated income statement and other changes are recognised in the fair value reserve within equity.

Changes in fair values of available-for-sale equity securities (i.e. non-monetary items) are recognised in other comprehensive income and accumulated in the fair value reserve, together with the related currency translation differences within equity.

Financial assets, available-for-sale that do not have a quoted market active price in an active market and whose fair value cannot be reliably measured are measured at cost less impairment losses subsequent to initial recognition. If the range of reasonable fair value measurements is significant and the probability of the various estimates cannot be reasonably assessed, an entity is precluded from measuring the instrument at fair value.

(e) Impairment

The Group assesses at each reporting date whether there is objective evidence that a financial asset or a group of financial assets is impaired and recognises an allowance for impairment when such evidence exists.

(i) Loans and receivables

Significant financial difficulties of the debtor, probability that the debtor will enter bankruptcy, and default or significant delay in payments are objective evidence that these financial assets are impaired.

The carrying amount of these assets is reduced through the use of an impairment allowance account which is calculated as the difference between the carrying amount and the present value of estimated future cash flows, discounted at the original effective interest rate. When the asset becomes uncollectible, it is written off against the allowance account. Subsequent recoveries of amounts previously written off are recognised against the same line item in the consolidated income statement.

Notes to The Financial Statements

For the financial year ended 31 December 2018

2. Significant accounting policies (continued)

2.7 Financial assets (accounting for financial assets up to 31 December 2017) (continued)

(e) Impairment (continued)

(i) Loans and receivables (continued)

The allowance for impairment loss account is reduced through the consolidated income statement in a subsequent period when the amount of impairment loss decreases and the related decrease can be objectively measured. The carrying amount of the asset previously impaired is increased to the extent that the new carrying amount does not exceed the amortised cost had no impairment been recognised in prior periods.

(ii) Financial assets, available-for-sale

In addition to the objective evidence of impairment described in Note 2.7(e)(i), a significant or prolonged decline in the fair value of an equity security below its cost is considered as an indicator that the available-for-sale financial asset is impaired.

If any evidence of impairment exists, the cumulative loss that was recognised in the fair value reserve is reclassified to consolidated income statement. The cumulative loss is measured as the difference between the acquisition cost (net of any principal repayments and amortisation) and the current fair value, less any impairment loss previously recognised as an expense. The impairment losses recognised as an expense on equity securities are not reversed through consolidated income statement in subsequent period.

2.8 Cash and cash equivalents

For the purpose of presentation in the consolidated statement of cash flows, cash and cash equivalents include cash on hand, deposits with financial institutions, which are subject to an insignificant risk of change in value, and bank overdrafts. Bank overdrafts are presented as current borrowings on the statement of financial position.

2.9 Financial liabilities

Financial liabilities include borrowings, trade payables, derivative financial instruments and other monetary liabilities. They are recognised when, and only when, the Group becomes a party to the contractual provisions of the financial instrument.

All financial liabilities, except for financial liabilities, at fair value through profit or loss, are recognised initially at the fair value of the consideration received less directly attributable transaction costs. After initial recognition, they are subsequently measured at amortised cost using the effective interest rate method. Gains and losses are recognised in the consolidated income statement when the liabilities are derecognised, and through the amortisation process. For financial liabilities, at fair value through profit or loss, they are subsequently measured at fair value. Any gains or losses arising from changes in fair value of the financial liabilities are recognised in the consolidated income statement.

A financial liability is derecognised when the obligation under the liability is discharged, cancelled or expired. 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 derecognition of the original liability and the recognition of a new liability, and the difference in the respective carrying amounts is recognised in the consolidated income statement.

Notes to The Financial Statements

For the financial year ended 31 December 2018

2. Significant accounting policies (continued)

2.10 Inventories

Inventories are carried at the lower of cost and net realisable value. Costs are determined using the weighted average basis.

The cost of finished goods comprises raw materials, direct labour and an appropriate proportion of production overhead expenditure. The net realisable value is the estimated selling price in the ordinary course of business, less applicable variable selling expenses.

2.11 Investments in subsidiaries and associated companies

Investments in subsidiaries and associated companies are carried at cost less accumulated impairment losses in the Company's statement of financial position. On disposal of investments in subsidiaries and associated companies, the difference between the net disposal proceeds and the carrying amounts of the investments are recognised in the income statement.

2.12 Property, plant and equipment

(a) Measurement

Property, plant and equipment are initially recognised at cost and subsequently carried at cost less accumulated depreciation and accumulated impairment losses.

The cost of an item of property, plant and equipment includes its purchase price and any cost that is directly attributable to bringing the asset to the location and condition necessary for it to be capable of operating in the manner intended by management. The projected cost of dismantlement, removal or restoration is also included as part of the cost of property, plant and equipment if the obligation for the dismantlement, removal or restoration is incurred as a consequence of acquiring or using the asset.

(b) Depreciation

Freehold land is not depreciated. Depreciation on items of property, plant and equipment is calculated using the straight-line method or reducing balance method to allocate their depreciable amounts over their estimated useful lives as follows:

	<u>Useful lives (Years)</u>
Leasehold land and buildings	20 - 54.5
Freehold buildings	40
Renovations	3 - 5
Furniture and fittings	3 - 5
Office equipment	3 - 5
Other equipment	3 - 8
Motor vehicles	5 - 10
Computers	3 - 5

(c) Subsequent expenditure

Subsequent expenditure related to property, plant and equipment that has already been recognised is added to the carrying amount of the asset only when 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. Other subsequent expenditure is recognised as repair and maintenance expense in the consolidated income statement during the financial year in which it is incurred.

Notes to The Financial Statements

For the financial year ended 31 December 2018

2. Significant accounting policies (continued)

2.12 Property, plant and equipment (continued)

(d) Disposal

On disposal of an item of property, plant and equipment, the difference between the net disposal proceeds and its carrying amount is recognised in the consolidated income statement. Any amount in revaluation reserve relating to that item is transferred to retained profit directly.

2.13 Investment properties

Investment properties include those portions of the buildings that are held for long-term rental yields and/or for capital appreciation and land under operating leases that are held for long-term capital appreciation or for a currently indeterminate use.

Investment properties are initially recognised at cost and subsequently carried at fair value, determined annually by independent professional valuers on the highest-and-best-use basis. Changes in fair values are recognised in the consolidated income statement.

Investment properties are subject to renovations or improvements at regular intervals. The cost of major renovations and improvements is capitalised as additions and the carrying amounts of the replaced components are written off to the consolidated income statement. The cost of maintenance, repairs and minor improvements is charged to the consolidated income statement when incurred.

Investment properties are derecognised when either they have been disposed of or when the investment property is permanently withdrawn from use or no future economic benefit is expected from its disposal. Any gain or loss on retirement or disposal of an investment property is recognised in the consolidated income statement in the year of retirement or disposal.

Transfers are made to or from investment property only when there is a change in use. For a transfer from investment property to owner occupied property, the deemed cost for subsequent accounting is the fair value at the date of change in use. When the use of a property changes from owner-occupied to investment property, the property is re-measured to fair value and reclassified accordingly. Any gain arising on re-measurement is recognised in profit or loss to the extent that it reverses a previous impairment loss on the specific property, with any remaining gain recognised in other comprehensive income and presented in the revaluation reserve in equity. Any loss is recognised immediately in profit or loss.

When the property is sold, the related amount in the revaluation reserve is transferred to retained earnings.

2.14 Intangible assets

(a) Goodwill

Goodwill on acquisitions of subsidiaries on or after 1 January 2010 represents the excess of the consideration transferred, the amount of any non-controlling interests in the acquiree and the acquisition-date fair value of any previous equity interest in the acquiree over the fair value of the net identifiable assets acquired.

Goodwill on acquisitions of subsidiaries prior to 1 January 2010 represents the excess of the cost of the acquisition over the fair value of the Group's share of the identifiable net assets acquired.

Goodwill on acquisitions of associated companies and joint ventures represents the excess of the cost of the acquisition over the fair value of the Group's share of the identifiable net assets acquired.

Notes to The Financial Statements

For the financial year ended 31 December 2018

2. Significant accounting policies (continued)

2.14 Intangible assets (continued)

(a) Goodwill (continued)

Goodwill arising from the acquisition of subsidiaries is recognised separately as an intangible asset and carried at cost less accumulated impairment losses. Goodwill arising from the acquisition of associated companies and joint ventures is included in the carrying amount of the investments and assessed for impairment as part of the investments.

(b) Computer software

Acquired computer software licenses are initially capitalised at cost which includes the purchase price (net of any discounts and rebates) and other directly attributed cost of preparing the asset for its intended use. Direct expenditure, which enhances or extends the performance of computer software beyond its original specifications and which can be reliably measured, is recognised as a capital improvement and added to the original cost of the software. Costs associated with maintaining computer software are recognised as an expense when incurred.

Acquired computer software licenses are subsequently carried at cost less accumulated amortisation and accumulated impairment losses. These costs are amortised to the consolidated income statement using the straight-line method over their estimated useful lives of three to five years.

(c) Distribution rights

Acquired distribution rights are initially capitalised at cost and subsequently carried at cost less accumulated amortisation and accumulated impairment losses. Amortisation is calculated using the straight-line method to allocate the cost of the distribution rights over their estimated useful lives of four years.

The amortisation period and amortisation method of intangible assets other than goodwill are reviewed at least at each reporting date. The effects of any revision of the amortisation period or amortisation method are included in the consolidated income statement for the financial year in which the changes arise.

2.15 Impairment of non-financial assets

(a) Goodwill

Goodwill is tested annually for impairment, and whenever there is any indication that the goodwill may be impaired.

For the purpose of impairment testing of goodwill, goodwill is allocated from the acquisition date, to each of the Group's cash-generating units ("CGU") expected to benefit from synergies arising from the business combination.

An impairment loss is recognised when the carrying amount of a CGU, including the goodwill, exceeds the recoverable amount of the CGU. The recoverable amount of a CGU is the higher of the CGU's fair value less cost of disposal and value-in-use.

The total impairment loss of a CGU is allocated first to reduce the carrying amount of goodwill allocated to the CGU and then to the other assets of the CGU pro-rata on the basis of the carrying amount of each asset in the CGU.

An impairment loss on goodwill is recognised in the consolidated income statement and is not reversed in a subsequent period.

Notes to The Financial Statements

For the financial year ended 31 December 2018

2. Significant accounting policies (continued)

2.15 Impairment of non-financial assets (continued)

- (b) Intangible assets (other than goodwill)
Property, plant and equipment
Investments in subsidiaries, associated companies and joint ventures

Intangible assets (other than goodwill), property, plant and equipment and investments in subsidiaries, associated companies and joint ventures are reviewed for impairment whenever there is any indication or objective evidence that these assets may be impaired. The recoverable amount (i.e. the higher of the fair value less cost of disposal and the value-in-use) of the asset is estimated in order to determine the extent of impairment loss (if any), on an individual asset.

For the purpose of impairment testing of these assets, the recoverable amount is determined on an individual asset basis unless the asset does not generate cash flows that are largely independent of those from other assets. If this is the case, recoverable amount is determined for the CGU to which the asset belongs.

If the recoverable amount of the asset (or CGU) is estimated to be less than its carrying amount, the carrying amount of the asset (or CGU) is reduced to its recoverable amount. The difference between the carrying amount and recoverable amount is recognised as an impairment loss in the consolidated income statement, unless the asset is carried at revalued amount, in which case, such impairment loss is treated as a revaluation decrease.

An impairment loss for an asset other than goodwill is reversed if, and 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. The carrying amount of an asset other than goodwill is increased to its revised recoverable amount, provided that this amount does not exceed the carrying amount that would have been determined (net of amortisation or depreciation) had no impairment loss been recognised for the asset in prior years.

A reversal of an impairment loss for an asset is recognised in the consolidated income statement, unless the asset is carried at revalued amount, in which case, such reversal is treated as a revaluation increase. However, to the extent that an impairment loss on the same revalued asset was previously recognised as an expense, a reversal of that impairment is also credited to the consolidated income statement.

2.16 Borrowings

- (a) Borrowings

Borrowings are initially recognised at fair value, net of transaction costs and subsequently carried at amortised cost. Any difference between the proceeds (net of transaction costs) and the redemption value is recognised in the consolidated income statement over the period of the borrowings using the effective interest method.

Borrowings which are due to be settled within twelve months after the reporting date are included in current borrowings even though the original term was for a period longer than twelve months and an agreement to refinance, or to reschedule payments, on a long-term basis is completed after the reporting date and before the financial statements are authorised for issue. Other borrowings due to be settled more than twelve months after the reporting date are presented as non-current borrowings in the statement of financial position.

Notes to The Financial Statements

For the financial year ended 31 December 2018

2. Significant accounting policies (continued)

2.16 Borrowings (continued)

(b) Borrowing costs

Borrowing costs are capitalised if they are directly attributable to the acquisition, construction or production of a qualifying asset. Capitalisation of borrowing costs commences when the activities to prepare the asset for its intended use or sale are in progress and the expenditure and borrowing costs are being incurred. Borrowing costs are capitalised until the assets are ready for intended use. If the resulting carrying amount of the asset exceeds its recoverable amount, an impairment loss is recorded.

Other borrowing costs are recognised on a time-proportion basis in the consolidated income statement using the effective interest method.

2.17 Trade and other payables

Trade and other payables are initially measured at fair value, and subsequently carried at amortised cost, using the effective interest method.

2.18 Offsetting financial instruments

Financial assets and liabilities are offset and the net amount reported in the statement of financial position when there is a legally enforceable right to set off the recognised amounts and there is an intention to settle on a net basis, or to realise the asset and settle the liability simultaneously.

2.19 Derivatives that are disqualified or do not qualify for hedge accounting

The Group uses derivative financial instruments such as foreign exchange forward contracts to hedge its risks associated with foreign currency fluctuations arising from the long-term loan exposure of its foreign subsidiaries. These derivative financial instruments entered into by the Group, while providing economic hedges, are not used for trading purposes.

Derivative financial instruments are recognised initially at fair value on the date the contracts are entered into and are subsequently re-measured to fair value at each reporting date. The gain or loss on re-measurement to fair value of derivative financial instruments that are disqualified or do not qualify for hedging accounting is recognised immediately in the consolidated income statement. Derivative financial instruments are carried as financial derivative assets when the fair value is positive and as financial derivative liabilities when the fair value is negative.

2.20 Fair value estimation

The carrying amounts of current financial assets and current financial liabilities, carried at amortised cost, are assumed to approximate their fair values.

The fair values of financial instruments traded in active markets (such as exchange-traded and over-the-counter securities and derivatives) are based on quoted market prices at the reporting date. The quoted market prices used for financial assets held by the Group are the current bid prices and the appropriate quoted market prices for financial liabilities are the current asking prices.

The fair value of financial instruments that are not traded in an active market is determined by using valuation techniques. The Group uses a variety of methods and makes assumptions that are based on market conditions existing at each reporting date. Where appropriate, quoted market prices or dealer quotes for similar instruments are used. Valuation techniques, such as estimated discounted cash flows, are also used to determine fair values of the financial instruments.

Notes to The Financial Statements

For the financial year ended 31 December 2018

2. Significant accounting policies (continued)

2.20 Fair value estimation (continued)

The fair value of financial liabilities carried at amortised cost are estimated by discounting the future contractual cash flows at the current market interest rates that are available to the Group for similar financial liabilities.

The fair values of currency forwards are calculated on the present value of the estimated future cash flows discounted using actively quoted forward exchange rates.

2.21 Provisions

Provisions for other liabilities and charges are recognised when the Group has a present legal or constructive obligation as a result of past events, it is more likely than not that an outflow of resources will be required to settle the obligation and the amount has been reliably estimated.

2.22 Financial guarantees

The Company has issued corporate guarantees to banks and suppliers for bank borrowings and purchases respectively of its subsidiaries and suppliers. These guarantees are financial guarantee as they require the Company to reimburse the banks and suppliers if the subsidiaries fail to make principal or interest payments when due in accordance with the terms of their borrowings and credit.

Financial guarantees are initially recognised at their fair values plus transaction costs and subsequently measured at the higher of: (a) premium received on initial recognition less amortization over the period of the subsidiaries' borrowings; and (b) the amount of expected loss computed using the impairment methodology under SFRS(I) 9.

Prior to 1 January 2018, financial guarantees were subsequently measured at the higher of (a) as above and the expected amounts payable to the banks in the event it is probable that the Company will reimburse the banks.

2.23 Employee compensation

(a) Defined contribution plans

Defined contribution plans are post-employment benefit plans under which the Group pays fixed contributions into separate entities such as the Central Provident Fund in Singapore, Mandatory Provident Fund in Hong Kong, Social Security Fund in China, Thailand, Philippines, Vietnam and Indonesia, Labour Pension Fund in Taiwan, Employees Provident Fund in Malaysia and National Pension Fund in South Korea on a mandatory, contractual or voluntary basis. The Group has no further payment obligations once the contributions have been paid. The Group's contributions are recognised as employee compensation expense when they are due.

(b) Defined benefit plans – post employment benefits

A defined benefit plan is a post-employment benefit plan other than a defined contribution plan. Certain entities in the Group have legal obligations to operate severance benefit schemes. Under such schemes, employees and directors with at least one year of service are entitled to receive a lump sum payment upon termination of their employment, based on their length of service and rate of payment at the time of termination.

The net defined benefit liability is the aggregate of the present value of the defined benefit obligation (derived using a discount rate based on high quality corporate bonds) at the reporting date reduced by the fair value of plan assets (if any), adjusted for any effect of limiting a net defined benefit asset to the asset ceiling. The asset ceiling is the present value of any economic benefits available in the form of refunds from the plan or reductions in future contributions to the plan.

Notes to The Financial Statements

For the financial year ended 31 December 2018

2. Significant accounting policies (continued)

2.23 Employee compensation (continued)

(b) Defined benefit plans – post employment benefits (continued)

The cost of providing benefits under the defined benefit plans is determined separately for each plan using the projected unit credit method. Defined benefit costs comprise the following: (i) Service cost (ii) Net interest expense or income (iii) Re-measurement.

Service costs which include current service costs, past service costs and gains or losses on non-routine settlements are recognised as expense in the consolidated income statement. Past service costs are recognised when plan amendment or curtailment occurs.

Net interest expense or income is the change during the period in the net defined benefit liability that arises from the passage of time which is determined by applying the discount rate based on high quality corporate bonds to the net defined benefit liability. Net interest on the net defined benefit liability is recognised as expenses or income in the consolidated income statement.

Re-measurement comprising actual gains and losses, return on plan assets and any change in the effect of the asset ceiling (excluding net interest on defined benefit liability) is recognised immediately in other comprehensive income in the period in which it arises. Re-measurement is recognised in retained earnings within equity and is not reclassified to the consolidated income statement in subsequent periods.

Plan assets are assets that are held by a long-term employee benefit fund or qualifying insurance policies. Plan assets are not available to the creditors of the Group, nor can they be paid directly to the Group. Fair value of plan assets is based on market price information. When no market price is available, the fair value of plan assets is estimated by discounting expected future cash flows using a discount rate that reflects both the risk associated with the plan assets and the maturity or expected disposal date of those assets (or, if they have no maturity, the expected period until the settlement of the related obligations).

The Group's right to be reimbursed for some or all of the expenditure required to settle a defined benefit obligation is recognised as a separate asset at fair value when and only when reimbursement is virtually certain.

(c) Employee leave entitlement

Employee entitlements to annual leave are recognised when they accrue to employees. A provision is made for the estimated liability for annual leave as a result of services rendered by employees up to the reporting date.

(d) Share-based compensation

The Group operates an equity-settled, share-based compensation plan. The fair value of the employee services received in exchange for the grant of the options is recognised as an expense in the consolidated income statement with a corresponding increase in the share option reserve over the vesting period. The total amount to be recognised over the vesting period is determined by reference to the fair value of the options granted on the date of grant. Non-market vesting conditions are included in the estimation of the number of shares under option that are expected to become exercisable on the vesting date. At each reporting date, the Group revises its estimates of the number of shares under option that are expected to become exercisable on the vesting date and recognises the impact of the revision of the estimates in the consolidated income statement, with a corresponding adjustment to the share option reserve over the remaining vesting period.

Notes to The Financial Statements

For the financial year ended 31 December 2018

2. Significant accounting policies (continued)

2.23 Employee compensation (continued)

(d) Share-based compensation (continued)

When the share options are exercised, the proceeds received (net of any directly attributable transaction costs) and the related balance previously recognised in the share option reserve is credited to share capital when new ordinary shares are issued.

2.24 Leases

(a) When the Group is the lessee:

The Group leases certain property, plant and equipment from third parties.

Finance leases

Leases of property, plant and equipment where the Group assumes substantially the risks and rewards of ownership are classified as finance leases.

The leased assets and the corresponding lease liabilities (net of finance charges) under finance leases are recognised in the statement of financial position as property, plant and equipment and borrowings respectively, at the inception of the leases based on the lower of the fair values of the leased assets and the present value of the minimum lease payments.

Each lease payment is apportioned between the finance charge and the reduction of the outstanding lease liability. The finance charge is recognised in the consolidated income statement and allocated to each period during the lease term so as to achieve a constant periodic rate of interest on the remaining balance of the finance lease liability.

Operating leases

Leases where a significant portion of the risks and rewards of ownership are retained by the lessor are classified as operating leases. Payments made under operating leases (net of any incentives received from the lessor) are recognised in the consolidated income statement on a straight-line basis over the period of the lease.

When an operating lease is terminated before the lease period has expired, any payment required to be made to the lessor by way of penalty is recognised as an expense in the financial year in which termination takes place. Contingent rents are recognised as an expense in the consolidated income statement when incurred.

(b) When the Group is the lessor:

The Group leases out certain investment properties to associated companies.

Operating leases

Assets leased out under operating leases are included in investment properties.

Rental from operating leases (net of any incentives given to the lessees) are recognised in the consolidated income statement on a straight-line basis over the lease term.

Notes to The Financial Statements

For the financial year ended 31 December 2018

2. Significant accounting policies (continued)

2.24 Leases (continued)

(b) When the Group is the lessor: (continued)

Operating leases (continued)

Initial direct costs incurred by the Group in negotiating and arranging an operating lease are added to the carrying amount of the leased asset and recognised as an expense in the consolidated income statement over the lease term on the same basis as the lease income.

Contingent rents are recognised as income in the consolidated income statement when earned.

2.25 Segment reporting

Operating segments are reported in a manner consistent with the internal reporting provided to the management whose members are responsible for allocating resources and assessing performance of the operating segments.

2.26 Share capital and treasury shares

Ordinary shares are classified as equity. Incremental costs directly attributable to the issuance of new ordinary shares are deducted against the share capital account.

When the Company or any entity within the Group purchases the Company's ordinary shares ("treasury shares"), the consideration paid including any directly attributable incremental cost is presented as a component within equity attributable to the Company's equity holders, until they are cancelled, sold or re-issued.

When treasury shares are subsequently cancelled, the cost of treasury shares are deducted against the share capital account if the shares are purchased out of capital of the Company, or against the retained earnings of the Company if the shares are purchased out of the earnings of the Company.

When treasury shares are subsequently sold or re-issued pursuant to the employee share option scheme, the cost of treasury shares is reversed from the treasury share account and the realised gain or loss on sale or re-issue, net of any directly attributable incremental transaction costs and related income tax, is recognised in the capital reserve.

2.27 Dividends

Interim dividends are recorded in the financial year in which they are declared payable.

Final dividends are recorded in the financial year in which the dividends are approved by the shareholders for payment.

Notes to The Financial Statements

For the financial year ended 31 December 2018

3. New and revised SFRS(I) issued but not yet adopted

At the date of authorisation of the financial statements, the Group has not adopted the following new or revised SFRS(I) that have been issued and which are relevant to the Group but will only be effective for the Group for the annual periods beginning as follows:

Description		Effective for annual periods beginning on or after
SFRS(I) 16	Leases	1 January 2019
Amendments to SFRS(I) 1-28	Long-term Interests in Associates and Joint Ventures	1 January 2019
Amendments to SFRS(I) 9	Prepayment Features with Negative Compensation and Modification of Financial Liabilities	1 January 2019
SFRS(I) INT 23	Uncertainty over Income Tax Treatments	1 January 2019
Improvements to SFRS(I) (March 2018)		
Improvements to SFRS(I) 1-12	Income Taxes	1 January 2019
Improvements to SFRS(I) 1-23	Borrowing Costs	1 January 2019
Amendments to SFRS(I) 1-19	Plan Amendment, Curtailment or Settlement	1 January 2019
Amendments to SFRS(I) 1-1 and SFRS(I) 1-8	Definition of Material	1 January 2020
Amendments to SFRS(I) 3	Business Combinations	1 January 2020
SFRS(I) 16	Leases	

SFRS(I) 16 requires lessees to recognise right-of-use assets and lease liabilities for all leases with a term of more than twelve months, except where the underlying asset is of low value. The right-of-use asset is depreciated and interest expense is recognised on the lease liability. The accounting requirements for lessors have not been changed substantially, and continue to be based on classification as operating and finance leases. Disclosure requirements have been enhanced for both lessors and lessees.

The Group plans to adopt SFRS(I) 16 on 1 January 2019 based on a permitted transition approach that does not restate comparative information, but recognises the cumulative effect of initially applying SFRS(I) 16 as an adjustment to the opening balance of retained earnings on 1 January 2019. The Group will elect the transition option to record, in respect of leases previously classified as operating leases, the right-of-use asset on 1 January 2019 at an amount equal to the lease liability, adjusted by the amount of any prepaid or accrued lease payments as at 31 December 2018. The Group also plans to adopt an expedient offered by SFRS(I) 16, exempting the Group from having to reassess whether pre-existing contracts contain a lease.

As disclosed in Note 37, the Group has entered into various operating lease arrangements as lessee. As at 31 December 2018, the minimum lease payments committed under non-cancellable operating leases amounted to US\$6,543,000. As at 1 January 2019, the Group expects an increase in right-of-use assets of approximately US\$4,755,000, an increase in lease liabilities of US\$4,925,000, with a corresponding decrease in retained earnings of US\$170,000 and its related tax impact as of 1 January 2019. The nature of expenses related to those leases will change as SFRS(I) 16 replaces the straight-line operating lease expense with a depreciation charge for right-of-use assets and interest expense on lease liabilities.

Notes to The Financial Statements

For the financial year ended 31 December 2018

3. New and revised SFRS(I) issued but not yet adopted (continued)

Amendments to SFRS(I) 1-28 Long-term Interests in Associates and Joint Ventures

The amendments clarify that SFRS(I) 9 Financial Instruments, including its impairment requirements, applies to long-term interests in an associate or joint venture to which the equity method is not applied but, in substance, form part of the net investment in an associate or joint venture. The Group is of the view that the adoption of this standard will not have any impact on the Group's financial performance or financial position and the Group will review the impact if any for future transactions.

Amendments to SFRS(I) 9 Prepayment Features with Negative Compensation and Modification of Financial Liabilities

The amendments provide an exception for entities to measure particular financial assets with prepayment features that could result in negative compensation (i.e. prepayment amount that is substantially less than unpaid amounts of principal and interest) at amortised cost or fair value through other comprehensive income, subject to an assessment of the business model. Such financial assets with prepayment features pass the solely payments of principal and interest criterion regardless of the event or circumstances that causes the early termination of the contract and irrespective of which party pays or receives reasonable compensation for the early termination of the contract.

The amendments also include clarifications to the accounting for a modification or exchange of a financial liability that does not result in derecognition. It clarifies that an entity should recognise a gain or loss in profit or loss immediately at the date of such modification or exchange. The Group is of the view that the adoption of this standard will not have any impact on the Group's financial performance or financial position and the Group will review the impact if any for future transactions.

SFRS(I) INT 23 Uncertainty over Income Tax Treatments

The interpretation clarifies that in determining taxable profit (tax loss), tax bases, unused tax losses, unused tax credits and tax rates, an entity first determines whether to consider each uncertain tax treatment separately or together as a group. An entity should determine the accounting tax position, on the assumption that a taxation authority has the right to examine the amounts reported to them and has full knowledge of all relevant information. SFRS(I) INT 23 provides the following guidance on determining an entity's accounting tax positions:

- If it is probable that taxation authority will accept the uncertain tax treatment, the entity determines the taxable profit (tax loss), tax bases, unused tax losses, unused tax credits or tax rates consistently with the tax treatment used or planned to be used in the entity's income tax filing.
- If it is not probable, an entity should estimate the effect of uncertainty in determining the related accounting tax position, using either the most likely amount or the expected value method, depending on which method better predicts the resolution of the uncertainty.

The Group is of the view that the adoption of this standard will not have any impact on the Group's financial performance or financial position and the Group will review the impact if any for future transactions.

Improvements to SFRS(I) 1-12 Income Taxes

This amendment requires an entity to recognise the income tax consequences of dividends paid in profit or loss, other comprehensive income, or equity, according to where the entity originally recognised those past transactions or events. The tax consequences should be recognised when the liability to pay the dividend is recognised. The Group is of the view that the adoption of this standard will not have any impact on the Group's financial performance or financial position and the Group will review the impact if any for future transactions.

Notes to The Financial Statements

For the financial year ended 31 December 2018

3. New and revised SFRS(I) issued but not yet adopted (continued)

Improvements to SFRS(I) 1-23

Borrowing Costs

This amendment clarifies that after a qualifying asset is ready for its intended use or sale, any outstanding borrowings made specifically to obtain that qualifying asset should be included within the pool of general borrowings used to calculate capitalised borrowing costs. The Group is of the view that the adoption of this standard will not have any impact on the Group's financial performance or financial position and the Group will review the impact if any for future transactions.

Amendments to SFRS(I) 1-19

Plan Amendment, Curtailment or Settlement

The amendments require an entity to use updated assumptions to determine current service cost and net interest for the remainder of the reporting period after a plan amendment, curtailment or settlement when the entity remeasures its net defined benefit liability/asset. The amendments also clarified that an entity disregards the effect of the asset ceiling when calculating past service cost, or a gain or loss on settlement. The impact on the asset ceiling is recognised in other comprehensive income, and is not reclassified to profit or loss. The Group is of the view that the adoption of this standard will not have any impact on the Group's financial performance or financial position and the Group will review the impact if any for future transactions.

Amendments to SFRS(I) 1-1 and SFRS(I) 1-8

Definition of Material

The amendments refine the definition of "material", provide guidance on its application, and align the definitions used across SFRS(I). Based on the amendments, information is material if omitting, misstating or obscuring it could reasonably be expected to influence decisions that the primary users of general-purpose financial statements make on the basis of those financial statements, which provide financial information about a specific reporting entity.

Amendments to SFRS(I) 3

Definition of Business

The amendments confirm that a business must include inputs and a process. The amendments also clarify that the process must be substantive, and the inputs and process must significantly contribute to creating outputs. The revised definition of a business focuses on goods and services provided to customers and other income from ordinary activities, rather than on providing dividends or other economic benefits directly to investors or lowering costs. A new optional test is available to assess whether a business has been acquired, when the value assets acquired is concentrated in a single asset or group of similar assets.

4. Critical accounting estimates, assumptions and judgements

Estimates, assumptions and judgements are continually evaluated and are based on historical experience and other factors, including expectations of future events that are believed to be reasonable under the circumstances.

The Group makes estimates and assumptions concerning the future. The resulting accounting estimates will, by definition, seldom equal the related actual results. The estimates and assumptions 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.

Notes to The Financial Statements

For the financial year ended 31 December 2018

4. Critical accounting estimates, assumptions and judgements (continued)

(a) Critical accounting estimates and assumptions

(i) Estimated impairment of goodwill arising from acquisition of subsidiaries

The Group tests goodwill for impairment annually in accordance with the accounting policy as disclosed in Note 2.15(a). The recoverable amounts of cash-generating units ("CGUs") have been determined based on value-in-use calculations. These calculations require the use of estimates and assumptions. Changes to these estimates and assumptions would result in changes in the carrying amount of goodwill arising from the acquisition of subsidiaries at the reporting date.

If the management's estimated pre-tax discount rate applied to the discounted cash flows for the CGU in Singapore is raised by 1.5% (2017: 1.5%), the impairment loss on goodwill would have been increased by approximately US\$421,000 (2017: US\$343,000).

As at the reporting date, the net carrying amount of goodwill arising from acquisition of subsidiaries amounted to US\$8,698,000 (2017: US\$13,432,000), net of accumulated impairment loss amounting to US\$11,974,000 (2017: US\$7,448,000).

(ii) Estimated useful lives of property, plant and equipment

Property, plant and equipment are depreciated on a straight-line basis over their estimated useful lives. Management estimates the useful lives of these property, plant and equipment to be between 3 to 54.5 years. The carrying amount of the Group's property, plant and equipment as at the reporting date was US\$35,323,000 (2017: US\$37,630,000). The Group assesses annually the residual values and the useful lives of the property, plant and equipment and if expectations differ from the original estimates due to changes in the expected level of usage and/or technological developments, such differences will impact the depreciation charges in the period in which such estimates are changed.

If depreciation on property, plant and equipment increases/decreases by 10% (2017: 10%) from management's estimates, the Group's profit after tax will decrease/increase by approximately US\$243,000 (2017: US\$205,000).

(b) Critical judgements in applying the Group's accounting policies

(i) Loss allowance for receivables

The Group measures the loss allowance for receivables in accordance with the accounting policy as disclosed in Note 2.6(b). This assessment is based on the credit history of its customers and other debtors and the current market condition. Provisions are made where events or changes in circumstances indicate that the receivables may not be collectible and this requires the use of judgement and estimates. Where the expectation is different from the original estimate, such difference will impact the carrying amount of the receivables and impairment is recognised in the period in which such estimate has been changed.

The carrying amount of the Group's trade and other receivables at 31 December 2018 amounted to US\$181,161,000 (2017: US\$223,510,000). The information about the expected credit losses on the Group's trade and other receivables is disclosed in Note 12 and 38(b).

Notes to The Financial Statements

For the financial year ended 31 December 2018

4. Critical accounting estimates, assumptions and judgements (continued)

(b) Critical judgements in applying the Group's accounting policies (continued)

(ii) Tax recoverable

During the financial year ended 31 December 2016, as part of the Transfer Pricing audit carried out by the People's Republic of China ("China") tax authority for transactions between the Group's subsidiary in China and Hong Kong, the Group paid additional income tax of RMB18,041,000 (US\$2,731,000) and interest of RMB4,374,000 (US\$652,000) to the China tax authority. As the Transfer Pricing audit was carried out in China, a unilateral adjustment in China could create a double taxation on the same profits in Hong Kong. In this respect, an independent tax consultant has been engaged to assist the Group's Hong Kong subsidiary to apply for corresponding adjustment to eliminate double taxation, based on current tax rules and regulations in China and Hong Kong. Significant judgement is required to determine the amount of tax recoverable that can be recognised to the extent that it is more likely than not that Hong Kong's tax authority will accept the application for the tax refund in principle and amount. As at 31 December 2018, the carrying amount of the tax recoverable amounted to HK\$13,000,000 (US\$1,667,000) (2017: US\$1,667,000).

(iii) Write down of inventories

The Group writes down the cost of inventories whenever the net realisable value of inventories becomes lower than cost due to damage, physical deterioration, obsolescence, changes in price levels or other causes. The Group wrote back allowances for inventory obsolescence during the financial year amounting to US\$1,748,000 (2017: provide allowances for inventory obsolescence of US\$2,222,000).

Inventory items identified to be obsolete and unusable are also written off and charged as an expense during the financial year. During the financial year, certain inventories which became obsolete and unusable totalling US\$335,000 (2017: US\$403,000) have been written off. The carrying amount of inventories as at the reporting date was US\$144,995,000 (2017: US\$168,465,000).

5. Revenue

	The Group	
	2018 US\$'000	2017 US\$'000
Sales of goods	1,527,107	1,492,204
Other income	24,490	5,959
	1,551,597	1,498,163
Performance obligations satisfied at a point in time		
Sales of goods:		
- electronic components	1,466,398	1,431,577
- consumer products	54,982	55,671
Others [Note 41(a)]	5,727	4,956
	1,527,107	1,492,204

Revenue based on the geographical area in which the entities are located are disclosed in Note 41(b).

Notes to The Financial Statements

For the financial year ended 31 December 2018

5. Revenue (continued)

	The Group	
	2018	2017
	US\$'000	US\$'000
Other income:		
Advertising and promotion income	21	214
Commission and service income	1,024	1,479
Rebate income from suppliers	600	428
Warehouse management and rental income	820	958
Gain on:		
- disposal of an associated company [Note 19(c)]	18,258	–
- dilution of interests in an associated company	–	24
- disposal/closure of subsidiaries [Note 21(e)]	–	105
- sale of financial assets, at fair value through profit or loss	3	–
- disposal of property, plant and equipment	13	–
Fair value gain on convertible bond [Note 19(b)]	941	–
Dividend income arising from:		
- financial assets, at fair value through profit or loss	47	–
- financial assets, available-for-sale	–	94
Reversal of contingent consideration payable for acquisition of a subsidiary in previous financial year	–	672
Interest income:		
- project financing, factoring and leasing	1,633	1,262
- bank balances	315	255
- loan to an associated company	316	54
Sundry income	499	414
Total other income	24,490	5,959

Notes to The Financial Statements

For the financial year ended 31 December 2018

6. Profit before income tax

	Note	The Group	
		2018 US\$'000	2017 US\$'000
This is arrived at after charging:			
Amortisation charges for intangible assets*			
- computer software license costs	24(b)	266	338
- distribution rights	24(c)	14	14
Depreciation of property, plant and equipment*	22	2,930	2,455
Property, plant and equipment written off*		3	5
Loss on disposal of property, plant and equipment*		–	18
Fair value loss on investment properties*	23	–	9
Fair value loss on financial assets, at fair value through profit or loss*	14	2,560	8
Impairment loss on:			
- financial assets, available-for-sale*	18	–	1,444
- goodwill arising from acquisition of subsidiaries*	24(a)	4,526	900
- investment in associated companies*	19(d)	5,437	–
Loss allowance:			
- trade receivables (third parties)	38(b)	1,450	4,125
- non-trade receivables (third parties)	38(b)	515	–
Inventories:			
- cost of inventories recognised as an expense (included in 'cost of sales')		1,408,498	1,387,085
- (write-back)/allowances for inventory obsolescence*	13	(1,748)	2,222
- write-off of inventories*		335	403
Fair value loss on derivative financial instruments*		666	333
Foreign exchange loss (net)*		4,375	411
Employee benefits expense	7	44,705	39,835
Rental expense - operating leases		5,118	4,719
Freight and handling charges		8,096	7,831
Travelling and transportation expenses		3,478	3,346
Sales commission expense		3,536	1,491
Hong Kong IPO expenses		3,082	549
Other expenses (included in distribution, administrative and other expenses)		14,396	14,181
Total cost of sales, distribution, administrative and other expenses		1,512,238	1,471,722

* Included in "other expenses"

Notes to The Financial Statements

For the financial year ended 31 December 2018

7. Employee benefits expense

	The Group	
	2018	2017
	US\$'000	US\$'000
Wages, salaries and bonuses	39,438	35,479
Employer's contribution to defined contribution plans	4,069	2,689
Defined benefit plans [Note 29(b)]	497	972
Other long term benefits	701	695
Total (Note 6)	44,705	39,835

Key management personnel compensation is disclosed in Note 40(c).

8. Finance expense

	The Group	
	2018	2017
	US\$'000	US\$'000
Interest expense:		
Bank borrowings	2,901	1,606
Trust receipts	7,058	6,038
Factoring	4,352	2,643
Finance lease liabilities	7	3
	14,318	10,290

9. Income taxes

(a) Income tax expense

	The Group	
	2018	2017
	US\$'000	US\$'000
Tax expense attributable to profit is made up of:		
Current income tax – Singapore	534	738
Current income tax – Foreign	5,099	4,192
	5,633	4,930
Deferred income tax (Note 30)	332	(119)
	5,965	4,811
(Over)/under provision in preceding financial years		
Current income tax [Note 9(c)]	(290)	(961)
Deferred income tax (Note 30)	31	275
	5,706	4,125

Notes to The Financial Statements

For the financial year ended 31 December 2018

9. Income taxes (continued)

(a) Income tax expense (continued)

The tax expense on the profit differs from the amount that would arise using the Singapore standard rate of income tax due to the following:

	The Group	
	2018	2017
	US\$'000	US\$'000
Profit before income tax	24,163	15,671
Tax calculated at applicable tax rates	4,023	2,586
Effects of:		
Income not subject to tax	(3,105)	(71)
Expenses not deductible for tax purposes	4,618	1,833
Utilisation of previously unrecognised deferred income tax assets	(435)	(695)
Deferred income tax assets not recognised	453	907
Tax effect on share of results of associated companies and joint venture	149	93
Withholding tax - foreign	262	158
Over provision of current income tax in preceding financial years	(290)	(961)
Under provision of deferred income tax in preceding financial years	31	275
Tax expense	5,706	4,125

The income not subject to tax mainly relates to other operating income arising from the gain on disposal of an associated company, disposal/closure of subsidiaries and reversal of contingent consideration payable for acquisition of a subsidiary in previous financial year.

The expenses not deductible for tax purposes mainly relate to impairment loss on goodwill arising from acquisition of subsidiaries and investment in associated companies, loss allowance on financial assets, exchange loss arising from revaluation of non-trade balances, fair value loss on derivative financial instruments, private car expenses, interest expenses relating to non-income producing assets, professional fees incurred on capital transactions and restriction on deduction for entertainment expenses incurred by the Group's South Korea and China subsidiaries.

The corporate income tax rates for the Group's subsidiaries, are calculated at the tax rates applicable in the country/region in which these subsidiaries are assessable for tax, based on existing legislation, interpretations and practices in respect thereof. The corporate income tax rates for the Group's subsidiaries which were subject to tax are as follows:

	2018	2017
Country/region of the subsidiaries:		
Singapore	17.0%	17.0%
China	25.0%	25.0%
Hong Kong	16.5%	16.5%
Malaysia	20.0%	20.0%
South Korea	20.0%	20.0%
Taiwan	20.0%	17.0%
Thailand	20.0%	20.0%

Notes to The Financial Statements

For the financial year ended 31 December 2018

9. Income taxes (continued)

(b) Income tax recoverable

	The Group		
	31 December 2018 US\$'000	31 December 2017 US\$'000	1 January 2017 US\$'000
Classified as			
Current (Note 12)	–	1,667	1,667
Non-current	1,667	–	–
	1,667	1,667	1,667

During the financial year ended 31 December 2016, as part of the Transfer Pricing audit carried out by the People's Republic of China ("China") tax authority for transactions between the Group's subsidiary in China and Hong Kong, the Group paid additional income tax of RMB18,041,000 (US\$2,731,000) and interest of RMB4,374,000 (US\$652,000) to the China tax authority. As the Transfer Pricing audit was carried out in China, a unilateral adjustment in China could create a double taxation on the same profits in Hong Kong. In this respect, an independent tax consultant has been engaged to assist the Group's Hong Kong subsidiary to apply for corresponding adjustment to eliminate double taxation, based on current tax rules and regulations in China and Hong Kong. Significant judgement is required to determine the amount of tax recoverable that can be recognised to the extent that it is more likely than not that Hong Kong's tax authority will accept the application for the tax refund in principle and amount. Up to the date of this report, the double tax relief application is still under review by the Hong Kong's tax authority and the amount is reclassified to non-current in the statement of financial position.

(c) Movement in current income tax liabilities

	The Group		The Company	
	2018 US\$'000	2017 US\$'000	2018 US\$'000	2017 US\$'000
Beginning of financial year	2,861	4,070	106	405
Acquisition of subsidiaries [Note 21(a)(iii)(c)]	–	7	–	–
Disposal/closure of subsidiaries [Note 21(e)(iii)]	–	(35)	–	–
Income tax (paid)/refund	(4,475)	(5,175)	46	(128)
Tax expense on profit [Note 9(a)]	5,633	4,930	198	79
Over provision in preceding financial years [Note 9(a)]	(290)	(961)	(187)	(250)
Currency translation differences	(291)	25	–	–
End of financial year	3,438	2,861	163	106

Notes to The Financial Statements

For the financial year ended 31 December 2018

10. Earnings per share

(a) Basic earnings per share

Basic earnings per share is calculated by dividing the net profit attributable to equity holders of the Company by the weighted average number of ordinary shares in issue (excluding treasury shares) during the financial year as follows:

	The Group	
	2018	2017
Net profit attributable to equity holders of the Company (US\$'000)	17,655	9,550
Weighted average number of ordinary shares outstanding for basic earnings per share ('000)	895,842	895,842
Basic earnings per share (US\$)	1.97 cents	1.07 cents

(b) Diluted earnings per share

For the purpose of calculating diluted earnings per share, profit attributable to equity holders of the Company and the weighted average number of ordinary shares in issue are adjusted for the effects of all dilutive potential ordinary shares.

There are no potential dilutive shares during the financial year ended 31 December 2018 and 31 December 2017. Accordingly, the diluted earnings per share is computed to be the same as the basic earnings per share for financial year ended 31 December 2018 and 31 December 2017.

11. Cash and cash equivalents

	The Group			The Company		
	31 December 2018	31 December 2017	1 January 2017	31 December 2018	31 December 2017	1 January 2017
	US\$'000	US\$'000	US\$'000	US\$'000	US\$'000	US\$'000
Cash at bank and on hand	52,425	60,311	60,898	2,808	977	858
Short-term bank deposits	6,755	12,769	4,255	5,249	7,501	1
Cash and bank balances	59,180	73,080	65,153	8,057	8,478	859
Less: Bank deposits pledged for overdraft facility	(926)	(923)	–	–	–	–
Cash and cash equivalents per consolidated cash flows	58,254	72,157	65,153	8,057	8,478	859

- (a) As at the reporting date, the cash and cash equivalents denominated in Chinese Renminbi amounted to approximately US\$3,742,000 (2017: US\$4,095,000; 1 January 2017: US\$5,404,000). The Chinese Renminbi is not freely convertible into other currencies. However under China's Foreign Exchange Control Regulations and Administration of Settlement, Sale and Payment of Foreign Exchange Regulations, the Group is permitted to exchange Chinese Renminbi for other currencies through banks authorised to conduct foreign exchange business.

Notes to The Financial Statements

For the financial year ended 31 December 2018

11. Cash and cash equivalents (continued)

- (b) As at the reporting date, short-term bank deposits matured on varying dates within one week to twelve months (2017: one week to twelve months; 1 January 2017: three to twelve months) from the end of the financial year with the following weighted average effective interest rates:

	The Group			The Company		
	31 December 2018	31 December 2017	1 January 2017	31 December 2018	31 December 2017	1 January 2017
Singapore Dollar	0.10%	0.99%	0.99%	0.10%	0.10%	0.10%
New Taiwan Dollar	0.63%	0.63%	0.63%	–	–	–
United States Dollar	2.55%	1.30%	0.45%	2.62%	1.37%	–
Thailand Baht	1.45%	1.50%	1.65%	–	–	–
Korean Won	2.50%	–	–	–	–	–
Australian Dollar	–	2.40%	2.40%	–	–	–
Chinese Renminbi	–	0.30%	–	–	–	–

12. Trade and other receivables

	The Group			The Company		
	31 December 2018 US\$'000	31 December 2017 US\$'000	1 January 2017 US\$'000	31 December 2018 US\$'000	31 December 2017 US\$'000	1 January 2017 US\$'000
Trade receivables:						
Third parties	177,405	218,340	201,845	–	–	–
Subsidiaries	–	–	–	1,659	2,730	10,028
Associated companies	–	24	1	–	36	10
	177,405	218,364	201,846	1,659	2,766	10,038
Loss allowance	(11,871)	(11,575)	(4,837)	–	–	–
Net trade receivables	165,534	206,789	197,009	1,659	2,766	10,038
Other receivables: Third parties	8,488	10,353	8,565	72	38	72
Loss allowance	(126)	(379)	(379)	–	–	–
	8,362	9,974	8,186	72	38	72
Income tax recoverable [Note 9(b)]	–	1,667	1,667	–	–	–
Due from:						
Subsidiaries	–	–	–	14,970	11,250	2,231
A joint venture	5,493	2,471	–	–	–	–
Associated companies	2,287	2,609	888	1,717	1,649	52
Loss allowance	(515)	–	–	–	–	–
Net other receivables	15,627	16,721	10,741	16,759	12,937	2,355
Total	181,161	223,510	207,750	18,418	15,703	12,393

Notes to The Financial Statements

For the financial year ended 31 December 2018

12. Trade and other receivables (continued)

- (a) The Group has an unconditional right to consideration in exchange for goods or services that it has transferred to its customers. Accordingly, the Group has no contract asset as defined in SFRS(I) 15 and records the amount of consideration as trade receivables for its sales arrangements with the customers.
- (b) The Group generally grants a credit period that ranges from 0 to 90 days to its customers. Trade receivables are recognised initially at the amount of consideration that is unconditional unless they contain significant financing components, when they are recognised at fair value. Loss allowance for trade receivables are measured at an amount equal to lifetime expected credit losses. Details are disclosed in Note 38(b) to the consolidated financial statements.
- (c) Other receivables (including amount due from subsidiaries, a joint venture and associated companies) are considered to have low credit risk as there is no significant increase in the risk of default on the receivables since initial recognition. The loss allowance is measured at an amount equal to 12-month expected credit loss which reflects the low credit risk of the exposures. Details of the loss allowance for other receivables are disclosed in Note 38(b) to the consolidated financial statements.
- (d) As at the reporting date, the amounts due from subsidiaries are non-trade in nature, unsecured, interest-free and are repayable in cash, on demand, except for an amount of US\$12,277,000 (2017: US\$8,425,000, 1 January 2017: US\$1,702,000) which bears interest at 5.90% (2017: 3.61%; 1 January 2017: 4.20%) per annum.
- (e) The amounts due from a joint venture are non-trade in nature, unsecured, bears interests at 5.00% (2017: 5.00%) per annum and is repayable in cash, on demand.
- (f) The amounts due from associated companies are non-trade in nature, unsecured, interest-free and are repayable in cash, on demand, except for an amount due to the Group and Company of US\$730,000 as at 31 December 2017, which bears interest at 3.65%. During the financial year, the Group recognised a loss allowance for amounts due from an associated company amounting to US\$515,000 due to changes in credit risk.

13. Inventories

	The Group		
	31 December 2018 US\$'000	31 December 2017 US\$'000	1 January 2017 US\$'000
Finished goods	144,032	167,544	152,094
Work in progress	10	12	18
Raw materials	953	909	789
	144,995	168,465	152,901

During the financial year, the Group reversed allowances for inventory obsolescence amounting to US\$1,748,000. During the previous financial year ended 31 December 2017 and 1 January 2017, the Group provided allowances for inventory obsolescence of US\$2,222,000 and US\$1,848,000 respectively (Note 6).

The reversal of allowances for inventory obsolescence in the current financial year mainly resulted from the termination of the distributorship agreement with a supplier during the financial year. The Group subsequently recovered from the supplier the inventories at cost. Accordingly, the net realisable values of such inventories was reversed to their cost and the provision made for certain aged inventories up to 31 December 2017 was written back to the consolidated income statement during the current financial year.

Notes to The Financial Statements

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14. Financial assets, at fair value through profit or loss

	The Group		
	31 December 2018 US\$'000	31 December 2017 US\$'000	1 January 2017 US\$'000
Classified as:			
Current	70,953	810	812
Non-current	3,506	–	–
	74,459	810	812
Comprised:			
Listed equity securities/assets [Note 14(a)]:			
- Singapore	382	48	57
- South Korea	2,553	–	–
- Indonesia	2	7	–
	2,937	55	57
Convertible note – Singapore [Note 14(b)]	683	755	755
Trade receivables [Note 14(c)]	70,224	–	–
Other investment - Cambodia [Note 14(d)]	615	–	–
	74,459	810	812

(a) Movements in listed equity securities/assets

	The Group	
	2018 US\$'000	2017 US\$'000
Beginning of financial year	55	57
Reclassified from financial assets, available-for-sale (Note 18)	5,943	–
	5,998	57
Additions	–	7
Fair value loss (Note 6)	(2,560)	(8)
Disposals	(470)	–
Currency translation differences	(31)	(1)
End of financial year	2,937	55

- (b) As at the reporting date, the Group has an unsecured convertible note with a principal amount of US\$683,000 (2017: US\$755,000; 1 January 2017: US\$755,000) issued by a third party entity incorporated in Singapore. The note bears interest at the rate of 7% per annum payable annually. The Group has called for redemption of the convertible note.

Notes to The Financial Statements

For the financial year ended 31 December 2018

14. Financial assets, at fair value through profit or loss (continued)

- (c) The Group entered into factoring agreements with certain banks so as to obtain bank advances. Financial assets at fair value through profit or loss are trade receivables that do not meet the criteria for measurement at either amortised cost or fair value through other comprehensive income as the objective of the Group's business model is achieved by selling these assets. As at 31 December 2018, the fair value of the trade receivables amounted to US\$70,224,000. During the financial year, changes in fair values of financial assets at fair value through profit or loss amounted to US\$359,000 are recorded under finance expense in the consolidated income statement.

As at the reporting date, trade receivables of US\$76,306,000 (2017: US\$79,236,000) had been transferred to the banks in accordance with the relevant non-recourse factoring agreements. Under these arrangements, the Group is not exposed to default risks of the trade receivables after the transfer and subsequent to the transfer, the Group did not retain any rights on the use of the trade receivables, including the sale, transfer or pledge of the trade receivables to any other third parties. Accordingly these trade receivables, which are carried at amortised cost as at 31 December 2017 and at fair value through profit or loss as at 31 December 2018, were derecognised.

- (d) Other investment relates to an interest in a residential and commercial property development investment on two pieces of land located in Phnom Penh, Cambodia [Note 25(a)].

15. Other current assets

	The Group			The Company		
	31 December 2018 US\$'000	31 December 2017 US\$'000	1 January 2017 US\$'000	31 December 2018 US\$'000	31 December 2017 US\$'000	1 January 2017 US\$'000
Deposits	619	675	2,200	–	8	8
Prepayments	1,613	2,058	1,744	261	150	237
	2,232	2,733	3,944	261	158	245

- (a) Prepayments are denominated in the following currencies:

	The Group			The Company		
	31 December 2018 US\$'000	31 December 2017 US\$'000	1 January 2017 US\$'000	31 December 2018 US\$'000	31 December 2017 US\$'000	1 January 2017 US\$'000
Singapore Dollar	297	238	274	156	46	135
United States Dollar	242	406	277	105	97	95
Hong Kong Dollar	86	294	70	–	–	–
New Taiwan Dollar	329	312	132	–	–	–
Korean Won	417	182	179	–	–	–
Chinese Renminbi	176	148	437	–	7	7
Indonesian Rupiah	34	444	297	–	–	–
Others	32	34	78	–	–	–
	1,613	2,058	1,744	261	150	237

- (b) As at 1 January 2017, the deposits included an amount of S\$2,173,000 (US\$1,505,000) for the additional investment in an associated Company.
- (c) The currency exposure for deposits are disclosed in Note 38(a)(i) to the financial statements under "other financial assets".

Notes to The Financial Statements

For the financial year ended 31 December 2018

16. Loans and other receivables

Non-current loan to an associated company - 3.84% interest bearing loan, unsecured

The Group		
31 December 2018 US\$'000	31 December 2017 US\$'000	1 January 2017 US\$'000
-	-	820

Non-current

Loans to subsidiaries

Interest bearing

Non-interest bearing

Gross amount

Less: Fair value adjustment to investments in subsidiaries

Add: Imputed interest recognised in Company's
Income Statement

The Company		
31 December 2018 US\$'000	31 December 2017 US\$'000	1 January 2017 US\$'000
28,554	29,415	42,301
7,182	13,879	2,940
(1,606)	(2,362)	-
840	438	-
6,416	11,955	2,940
34,970	41,370	45,241

Total

As at the reporting date, the loans to subsidiaries of US\$7,182,000 (2017: US\$13,879,000; 1 January 2017: Nil) are interest-free and repayable on 31 December 2021 (2017: 31 December 2021). The amounts are adjusted to be measured at fair value at date of inception.

As at the reporting date, the weighted average effective interest rate of the unsecured loans to subsidiaries based on prevailing market interest rates is 5.43% (2017: 3.94%; 1 January 2017: 3.79%) per annum.

17. Financial assets, at fair value through other comprehensive income

Non-current

Unlisted equity securities

United States

China

Total

The Group		
31 December 2018 US\$'000	31 December 2017 US\$'000	1 January 2017 US\$'000
1,800	-	-
195	-	-
1,995	-	-

Financial assets, at fair value through other comprehensive income comprise equity securities which are not held for trading, and for which the Group has made an irrevocable election at initial recognition to recognise changes in fair value through other comprehensive income rather than profit or loss as these are strategic investments and the Group considered this to be more relevant.

Notes to The Financial Statements

For the financial year ended 31 December 2018

17. Financial assets, at fair value through other comprehensive income (continued)

Movements in financial assets, at fair value through other comprehensive income are as follows:

	The Group		
	31 December 2018 US\$'000	31 December 2017 US\$'000	1 January 2017 US\$'000
Beginning of financial year	–	–	–
Reclassified from financial assets, available-for-sale (Note 18)	951	–	–
Additions	1,800	–	–
Fair value loss recognised in other comprehensive income	(742)	–	–
Currency translation differences	(14)	–	–
End of financial year	1,995	–	–

18. Financial assets, available-for-sale

	The Group		
	31 December 2018 US\$'000	31 December 2017 US\$'000	1 January 2017 US\$'000
Listed equity securities			
Singapore	–	1,313	1,294
South Korea	–	4,630	5,268
	–	5,943	6,562
Unlisted equity securities, at cost			
Singapore	–	662	661
China	–	211	197
Taiwan	–	78	97
	–	951	955
Total	–	6,894	7,517

Notes to The Financial Statements

For the financial year ended 31 December 2018

18. Financial assets, available-for-sale (continued)

Movements in financial assets, available-for-sale are as follows:

	The Group	
	2018	2017
Beginning of financial year	6,894	7,517
Reclassification to :		
- financial assets, at fair value through profit or loss (Note 14)	(5,943)	–
- financial assets, at fair value through other comprehensive income (Note 17)	(951)	–
	–	7,517
Fair value loss recognised in other comprehensive income	–	(660)
Currency translation differences	–	37
End of financial year	–	6,894

During the financial year ended 31 December 2017, impairment loss of US\$1,444,000 was recognised and reclassified from fair value reserve to consolidated income statement (Note 6).

19. Investments in associated companies

	The Group			The Company		
	31 December 2018	31 December 2017	1 January 2017	31 December 2018	31 December 2017	1 January 2017
	US\$'000	US\$'000	US\$'000	US\$'000	US\$'000	US\$'000
Quoted equity shares, at cost	10,205	7,487	7,487	1,390	1,936	4,872
Unquoted equity shares, at cost	5,206	17,025	15,474	–	–	–
	15,411	24,512	22,961	1,390	1,936	4,872
Share of post-acquisition results and reserves	(5,963)	(5,910)	(5,931)	–	–	–
Impairment loss	(5,437)	–	–	–	–	–
Currency translation differences	(269)	(227)	(292)	–	–	–
	3,742	18,375	16,738	1,390	1,936	4,872
Market value of quoted equity shares	8,555	2,141	1,882	1,390	1,936	1,702

Notes to The Financial Statements

For the financial year ended 31 December 2018

19. Investments in associated companies (continued)

(a) The details of the associated companies held directly by the Group and the Company are as follows:

Name of associated companies		Country of incorporation and place of business	Percentage of effective equity interest held by the Group			
			31 December 2018 %	31 December 2017 %	1 January 2017 %	
Held by the Group and Company						
(1)	Bull Will Co., Ltd	Manufacturing and sale of electronic components with focus on passive components	Taiwan	19.0	19.0	29.0
Held by the Group						
(2)	Globaltronics International Pte. Ltd.	Investment holding	Singapore	45.0	45.0	45.0
(3)	Unitrontech China Co., Ltd	Distribution of electronic and electrical components	Hong Kong	41.0	41.0	41.0
(4)	PT Sentral Mitra Informatika	Provision of managed print services and distribution of copiers and printers	Indonesia	20.0	–	–
(4)	SPL Holdings (Australia) Pty Ltd	Investment holding and provision of laundry services in the hospitality industry	Australia	–	27.3	27.3
(4)	Tong Chiang Group Pte. Ltd.	Manufacture of food products and provision of food catering business	Singapore	21.0	21.0	21.0
(4)	Edith-United International Pte Ltd	Investment holding and rental of investment properties	Singapore	21.0	21.0	21.0
(4)	Eunice Food Catering Pte. Ltd.	Investment holding and rental of investment properties	Singapore	21.0	21.0	21.0
(4)	Imperial Kitchen Catering Pte. Ltd.	Investment holding and rental of investment properties	Singapore	21.0	21.0	21.0

(1) Audited by ShineWing Taiwan CPAs, Taipei, Taiwan.

(2) Audited by Moore Stephens LLP, Singapore.

(3) Audited by PricewaterhouseCoopers, Hong Kong.

(4) Reviewed by Moore Stephens LLP, Singapore for consolidation purposes. These entities are not considered significant associated companies pursuant to the Listing Manual of the Singapore Exchange Securities Trading Limited.

(b) On 28 November 2018, the Company's wholly owned subsidiary, Serial System International Pte. Ltd. acquired an equity interest of 20.0% in a company incorporated in Indonesia, PT Sentral Mitra Informatika ("PT SMI") through the conversion of convertible bond issued by PT SMI of IDR 25 billion (US\$1,777,000), following the listing of PT SMI on the Development Board of the Stock Exchange of Indonesia. The Group recognised a fair value gain of US\$941,000 in the consolidated income statement (Note 5) prior to the conversion of the convertible bond to equity shares.

Notes to The Financial Statements

For the financial year ended 31 December 2018

19. Investments in associated companies (continued)

- (c) On 14 August 2018, the Company's wholly owned subsidiary, SCE Enterprise Pte. Ltd. ("SCE"), together with the other shareholders of SPL Holdings (Australia) Pty Ltd ("SPL"), entered into a conditional share sale agreement to dispose of the entire issued share capital of SPL to a third party. The total cash consideration for SCE's 27.3% interest in SPL is AUD 40,157,000 (US\$29,055,000). The total cash consideration was adjusted for differences between the estimated working capital and net debt of SPL as set out in the conditional share sale agreement and the final actual capital and net debt of SPL following the completion of the disposal. In this regard, an amount of US\$1,697,000 has been set aside in Other payables (Note 26) as at 31 December 2018 to accrue for any subsequent adjustments to the total consideration. At the date of this report, the Group had received sales proceeds amounting to US\$29,055,000 with an outstanding amount of US\$1,658,000 (included in Other receivables - Note 12) in the financial statements, pending fulfilment of certain conditions. The Group recognised a gain on disposal of an associated company of US\$18,258,000 in the consolidated income statement during the financial year (Note 5).

During the previous financial year ended 31 December 2017, SPL Holdings has contingent liabilities amounting to approximately AUD 1,500,000 (US\$1,171,000) and AUD 2,892,000 (US\$2,259,000) relating to additional payroll tax assessments issued by the State Revenue Offices in New South Wales and Victoria respectively. SPL Holdings has disputed and lodged objections for the additional payroll tax assessments in both states. In New South Wales, notwithstanding the objections lodged, SPL Holdings is required to pay the AUD 1,500,000 (US\$1,171,000) additional payroll taxes over thirty-eight equal monthly instalments of AUD 40,000 (US\$31,000) each beginning from November 2016.

- (d) During the financial year, the Group made full impairment losses of US\$5,437,000 on its 21.0% equity interests in Tong Chiang Group Pte. Ltd. ("TCGPL"), Edith-United International Pte Ltd, Eunice Food Catering Pte. Ltd. and Imperial Kitchen Catering Pte. Ltd. ("Tong Chiang Group") respectively. Creditors have filed application with the High Court of Singapore to wind up TCGPL. The Group recognised full impairment losses as the recoverable amount of the investment in the Tong Chiang Group would likely to be minimal. Subsequent to the financial year, TCGPL was ordered to be wound up by an order of the High Court of Singapore made on 1 March 2019.
- (e) On 23 February 2017, the Company's wholly owned subsidiary, Serial System International Pte. Ltd. increased its investment in associated company, Tong Chiang Group Pte. Ltd., pursuant to the subscription of its full entitlement of 54,335 shares at the subscription price of S\$40.00 (US\$28.16) per share totaling about S\$2,173,000 (US\$1,551,000). Derek Goh Bak Heng, a director of the Company has also subscribed for his full entitlement of 6,468 shares totalling about S\$259,000 (US\$182,000). The Group and Derek Goh Bak Heng's shareholding in Tong Chiang Group Pte. Ltd. remained at 21% and 2.5% respectively, before and after the share subscription.
- (f) On 30 September 2017, the Group's effective equity interest in Bull Will Co., Ltd ("Bull Will"), an entity listed in the Over-The-Counter Securities Exchange in Taiwan, decreased from 29.03% to 19.02% pursuant to the subscription of 38,400,000 new placement shares of Bull Will for a total cash consideration of NT\$57,600,000 (US\$1,900,000). The Group recognised a gain of dilution of interests of US\$24,000 in the consolidated income statement during the financial year ended 31 December 2017 (Note 5).
- (g) The Group has not recognised losses relating to Globaltronics International Pte. Ltd. where its share of losses exceeds the Group's interest in this associated company. The Group's cumulative share of unrecognised losses of Globaltronics International Pte. Ltd. as at the reporting date was US\$241,000 (2017: US\$246,000), after the share of the current year's profit of US\$5,000 (2017: US\$2,000). The Group has no obligation in respect of these unrecognised losses.

Notes to The Financial Statements

For the financial year ended 31 December 2018

19. Investments in associated companies (continued)

- (h) The following table summarises, in aggregate, the carrying amount, share of (loss)/profit and other comprehensive (loss)/income of the associated companies that are not individually material to the Group and accounted for using the equity method:

	The Group	
	2018	2017
	US\$'000	US\$'000
The Group's share of:		
Losses from continuing operations	(335)	(446)
Other comprehensive (loss)/income	(365)	532
Total comprehensive (loss)/income	(700)	86
Aggregate carrying amount of the Group's interests in these associated companies	3,742	18,375

20. Investment in joint venture

	The Group	
	31 December 2018	31 December 2017
	US\$'000	US\$'000
Unquoted equity shares, at cost	2,344	2,344
Share of post-acquisition results and reserves	(529)	92
	1,815	2,436

- (a) The details of the joint venture held directly by the Group is as follows:

Name of joint venture	Principal activities	Country of incorporation and place of business	Percentage of effective equity interest held by the Group	
			31 December 2018	31 December 2017
			%	%
Held by the Group				
(1) Musang Durians Frozen Food (M) Sdn. Bhd.	Manufacturing, processing, trading and exporting of durian puree and durian related products	Malaysia	27.5	27.5

(1) Audited by Sha, Tan & Co., Chartered Accountants, Kuala Lumpur, Malaysia.

- (b) On 29 August 2017, the Group's 55% owned subsidiary, Bast Investment Pte. Ltd., acquired equity interests in Musang Durians Frozen Food (M) Sdn. Bhd. by subscribing for 10 new ordinary shares for MYR10,000,000 (US\$2,344,000), representing 50% of the enlarged share capital of Musang Durians Frozen Food (M) Sdn. Bhd. Cost of investment in the joint venture included goodwill amounted to MYR 3,760,000 (US\$881,000).

Notes to The Financial Statements

For the financial year ended 31 December 2018

20. Investment in joint venture (continued)

- (c) The following table summarises, in aggregate, the carrying amount, share of loss and other comprehensive (loss)/income of the joint venture that is not material to the Group and accounted for using the equity method:

	The Group	
	2018 US\$'000	2017 US\$'000
The Group's share of:		
Loss from continuing operations	(543)	(34)
Other comprehensive (loss)/income	(78)	126
Total comprehensive (loss)/income	(621)	92
Aggregate carrying amount of the Group's interests in the joint venture	1,815	2,436

21. Investments in subsidiaries

	The Company		
	31 December 2018	31 December 2017	1 January 2017
Equity investments at cost			
Beginning of financial year	74,365	67,123	66,502
Additions	–	4,000	–
Accounting for financial guarantee contracts	466	1,380	621
Fair value adjustment to loans (from)/to subsidiaries	(444)	1,862	–
End of financial year	74,387	74,365	67,123
Accumulated impairment losses:			
Beginning of financial year	(1,576)	(1,576)	(1,576)
Additions	(4,158)	–	–
End of financial year	(5,734)	(1,576)	(1,576)
Net investment	68,653	72,789	65,547

(a) Business combinations

- (i) On 5 May 2017, the Company's wholly-owned subsidiary, Serial System International Pte. Ltd. acquired a 70% equity interest in Print-IQ Singapore Pte. Ltd. ("Print-IQ"), for a total cash consideration of S\$331,000 (US\$237,000). The Group acquired Print-IQ with the intent for Print-IQ to leverage on the Group's extensive distribution network and wide customer base, as well as to achieve operational synergies and economies of scale. This will in turn expand the business, operations and improve the financial performance of the Group's consumer products distribution business. Print-IQ became a 70% owned subsidiary of the Group upon completion of the acquisition.
- (ii) On 28 June 2017, the Group's wholly-owned subsidiary, Serial I-Tech (Far East) Pte. Ltd., acquired a 100% equity interest in Inkcart Pte. Ltd. ("Inkcart"), for a total cash consideration of S\$1.00 (US\$0.73). The Group intends to use Inkcart to expand the Group's consumer products distribution business by leveraging on the Group's extensive distribution network and wide customer base. Inkcart became a wholly-owned subsidiary of the Group upon completion of the acquisition.

Notes to The Financial Statements

For the financial year ended 31 December 2018

21. Investments in subsidiaries (continued)

(a) Business combinations (continued)

- (iii) As the acquisitions in Note 21(a)(i) and (ii) above represent business acquisitions, they have been accounted for in accordance with SFRS(I) 3 Business Combinations.

Details of the consideration paid, the assets acquired and liabilities assumed, and the effect on the cash flow of the Group, at the acquisition date, are as follows:

2017	Print-IQ US\$'000	Inkcart US\$'000	Total US\$'000
(a) Purchase consideration			
Cash paid/payable	237	*	237
Contingent consideration	–	–	–
Consideration transferred for the business	237	–	237
(b) Effect on cash flow of the Group			
Cash paid/payable (as above)	237	–	237
Less: Cash and cash equivalents acquired	(91)	(46)	(137)
Cash outflow/(inflow) on acquisition	146	(46)	100
(c) Identifiable assets acquired and liabilities assumed			
Cash and cash equivalents	91	46	137
Inventories	46	–	46
Trade and other receivables	118	–	118
Other current assets	23	–	23
Plant and equipment (Note 22)	46	–	46
Intangible assets [Note 24(b)]	28	–	28
Total assets	352	46	398
Trade and other payables	(216)	(46)	(262)
Current income tax liabilities [Note 9(c)]	(7)	–	(7)
Total liabilities	(223)	(46)	(269)
Total identifiable net assets	129	–	129
Less: Non-controlling interests (Note 35)	(38)	–	(38)
Add: Goodwill recognised [Note 24(a)]	146	–	146
Consideration transferred for the business	237	*	237

* Amount less than US\$1,000

(d) Acquisition related costs

There were no significant acquisition related costs incurred by the Group for the acquisition of these subsidiaries.

(e) Acquired receivables

The trade and other receivables acquired in this transaction with a fair value of US\$118,000 had a gross contractual amount of US\$118,000. At the acquisition date, none of the contractual cash flows pertaining to the trade receivables are not expected to be collected.

Notes to The Financial Statements

For the financial year ended 31 December 2018

21. Investments in subsidiaries (continued)

(a) Business combinations (continued)

(iii) 2017 (continued)

(f) Goodwill

The goodwill of US\$146,000 arising from the acquisition is computed as excess of the fair value of the net identifiable assets of the subsidiary acquired over the sum of the consideration transferred and the acquisition date fair value of previously held equity interest in the acquiree.

(g) Revenue and profit contribution

(i) The consolidated income statement for the financial year ended 31 December 2017 included results from the acquired subsidiaries from their respective dates of acquisition. Print-IQ contributed revenue and net loss of US\$1,084,700 and US\$138,500 respectively and Inkcarts contributed revenue and net profit of US\$95,600 and US\$262 respectively.

(ii) Had these business acquisitions been effected at 1 January 2017, the consolidated revenue and net profit for the financial year ended 31 December 2017 would have been US\$1,493,294,000 and US\$9,492,300 respectively.

(b) Additional interests in subsidiaries

(i) On 13 July 2018, the Company's wholly owned subsidiary, Serial Microelectronics Pte Ltd acquired an additional 20% equity interest in STECH Global Trading Pte. Ltd. ("STECH Global") via the purchase of an additional 100,000 ordinary shares of STECH Global at a consideration of S\$48,362 (US\$35,493) from an existing shareholder. The Group's effective equity interest in STECH Global increased from 70% to 90% upon completion of the acquisition. The Group recognised a decrease in other reserve and a decrease in non-controlling interests of US\$116 and US\$35,377 respectively.

(ii) On 30 September 2017, the Group's 91% owned subsidiary, Serial Microelectronics (HK) Limited acquired the remaining 45% equity interest in Serial Vision Limited ("SVL") via the purchase of an additional 4,500 ordinary shares of SVL at HK\$4,500 (US\$577) from an existing shareholder. The Group's effective equity interest in SVL increased from 50.05% to 91% upon completion of the acquisition. The Group recognised an increase in other reserve and a decrease in non-controlling interests of US\$6,000 and US\$5,000 respectively.

(c) Additional investments in subsidiaries

(i) On 9 March 2018, the Group's wholly owned subsidiary, Serial I-Tech (Far East) Pte. Ltd. reduced its share capital from US\$11,053,000 to US\$1,053,000 via a capital reduction exercise to cancel part of its issued and fully paid-up capital amounting to US\$10,000,000, which has been lost and unrepresented by available assets.

(ii) On 23 March 2018 and 25 October 2018, the Group's 80% owned subsidiary, PT. Achieva Technology Indonesia, increased its issued and paid up share capital from IDR 2.5 billion (US\$250,000) to IDR 7.575 billion (US\$549,000) pursuant to the total issuance of 5,075 new ordinary shares for a cash consideration of IDR 5.075 billion (US\$299,000), of which the 80% capital contribution by the Group's wholly owned subsidiary, SCE Enterprise Pte. Ltd. amounted to IDR 4.06 billion (US\$239,000).

Notes to The Financial Statements

For the financial year ended 31 December 2018

21. Investments in subsidiaries (continued)

(c) Additional investments in subsidiaries (continued)

- (iii) On 31 December 2018, the Company's wholly owned subsidiary, SCE Enterprise Pte. Ltd. increased the issued and paid up share capital of its wholly owned subsidiary, Serial I-Tech (Far East) Pte. Ltd., from US\$1,053,000 to US\$2,553,000 pursuant to the issuance of 2,056,500 new ordinary shares via the capitalisation of a loan amount for US\$1,500,000.
- (iv) On 14 February 2017 and 29 December 2017, the Company increased the issued and paid up share capital of its wholly owned subsidiary, SCE Enterprise Pte. Ltd., from S\$2,428,000 (US\$1,858,000) to S\$8,010,000 (US\$5,858,000) pursuant to the total issuance of 5,582,000 new ordinary shares via the capitalisation of a total loan amount for S\$5,582,000 (US\$4,000,000).
- (v) On 3 July 2017, the Group's 95.5% owned subsidiary, Teampal Enterprise Corp. ("Teampal") returned excess issued and paid up share capital of NT\$15,000,000 (US\$494,000) to its wholly owned immediate holding company, Serial Microelectronics Inc. via the reduction of NT\$15,000,000 (US\$494,000) issued and paid up share capital of Teampal. Teampal's issued and paid up share capital reduced from NT\$30,000,000 (US\$988,000) to NT\$15,000,000 (US\$494,000) upon the completion of the capital reduction.
- (vi) On 29 December 2017, the Group's wholly owned subsidiary, Achieva Technology Australia Pty Ltd ("ATPY") returned excess issued and paid up share capital to its wholly owned immediate holding company, Achieva Technology Pte Ltd via the reduction of AUD 1,905,160 (US\$1,443,000) issued and paid up share capital of ATPY. ATPY's issued and paid up share capital reduced from AUD 7,700,002 (US\$6,000,000) to AUD 5,794,842 (US\$4,557,000) upon the completion of the capital reduction.
- (vii) On 29 December 2017, the Company's wholly owned subsidiary, SCE Enterprise Pte. Ltd. increased the issued and paid up share capital of its wholly owned subsidiary, Serial I-Tech (Far East) Pte. Ltd., from US\$5,053,000 to US\$11,053,000 pursuant to the issuance of 8,082,000 new ordinary shares via the capitalisation of a loan amount for US\$6,000,000.

(d) Incorporation of subsidiaries

- (i) On 9 April 2018, the Company's wholly owned subsidiary, Serial Microelectronics Pte Ltd incorporated a wholly owned subsidiary, Serial Electronics Investment Limited in the British Virgin Islands with a registered capital of US\$100.
- (ii) On 16 April 2018, the Group's wholly owned subsidiary, Serial Electronics Investment Limited incorporated a 91% owned subsidiary, XIN Holdings International Limited in the Cayman Islands with a registered capital of HK\$10 (US\$1.28). The remaining 9% interest is held by WY Capital Limited, a company wholly owned by the previous 9% non-controlling shareholder of Serial Microelectronics (HK) Limited [Note 21(d)(iii)].
- (iii) On 17 April 2018, the Group's 91% owned subsidiary, XIN Holdings International Limited incorporated a wholly owned subsidiary, Xin Capital Limited in the British Virgin Islands with a registered capital of US\$100. Pursuant to a reorganisation, Serial Microelectronics (HK) Limited, previously 91% owned by Serial Microelectronics Pte Ltd was transferred to be wholly owned by Xin Capital Limited during the financial year ended 31 December 2018. The Group's effective interest in Serial Microelectronics (HK) Limited remained unchanged at 91% after the reorganisation.

Notes to The Financial Statements

For the financial year ended 31 December 2018

21. Investments in subsidiaries (continued)

(d) Incorporation of subsidiaries (continued)

- (iv) On 8 August 2018, the Company's wholly owned subsidiary, Serial System International Pte. Ltd. acquired a 65% equity interest in a newly incorporated company, SB Global Ventures Pte. Ltd. in Singapore for an initial cash consideration of US\$100.
- (v) On 26 May 2017, the Group's 91% owned subsidiary, Serial Microelectronics (HK) Limited incorporated a 70% owned subsidiary, Xuanhong Automotive Electronics Limited in Hong Kong with an issued and paid up share capital of HK\$1,150,000 (US\$147,000), of which the 70% capital contribution by Serial Microelectronics (HK) Limited amounted to HK\$805,000 (US\$103,000).
- (vi) On 18 August 2017, the Group's 63.7% owned subsidiary, Xuanhong Automotive Electronics Limited incorporated a wholly owned subsidiary, Xuanli Automotive Electronics Co., Limited in China with a registered capital of RMB 976,769 (US\$147,000).
- (vii) On 21 August 2017, the Company's wholly owned subsidiary, Serial System International Pte. Ltd. acquired a 55% equity interest in a newly incorporated company, Bast Investment Pte. Ltd. in Singapore for a total cash consideration of S\$165,000 (US\$122,000).
- (viii) On 29 August 2017, the Company's wholly owned subsidiary, Serial System International Pte. Ltd. incorporated a wholly owned subsidiary, Musang Durian King Pte. Ltd. in Singapore with an issued and paid up share capital of S\$1 (US\$0.74).
- (ix) On 15 September 2017, the Group's 55% owned subsidiary, Bast Investment Pte. Ltd. acquired a 100% equity interest in a newly incorporated company, Bast Global Sdn. Bhd. in Malaysia for a total cash consideration of MYR 1 (US\$0.23). The issued and paid up share capital of Bast Global Sdn. Bhd. was increased to MYR 10,000 (US\$2,342) subsequent to the acquisition during the financial year ended 31 December 2017.
- (x) On 8 November 2017, the Company's wholly owned subsidiary, Serial Microelectronics Pte Ltd set up a 99% owned limited liability partnership, Serial Microelectronics India LLP in India with an initial capital of INR3,300,001 (US\$50,000), of which the 99% capital contribution by Serial Microelectronics Pte Ltd amounted to INR 3,267,001 (US\$50,000).
- (xi) On 12 December 2017, the Group's 46.4% owned subsidiary, Newstone Technology Limited incorporated a wholly owned subsidiary, Newstone Technology (Shenzhen) Company Limited in China with registered capital of RMB 5,000,000 (US\$767,000). As at 31 December 2018, Newstone Technology Limited contributed share capital amounting to RMB 3,200,695 (US\$500,000).

(e) Disposal/closure of subsidiaries

- (i) On 10 April 2017, the Group's wholly owned subsidiary, Serial I-Tech (ME) Pte. Ltd. entered into a sales and purchase agreement with a third party to dispose 100% equity interest in JEL Distribution (Kazakhstan) LLP, for a cash consideration of US\$450,000.
- (ii) On 1 December 2017, the Group's 95.5% owned subsidiary, Serial Microelectronics Inc. entered into a sales and purchase agreement with a third party to dispose of 100% equity interests in New Chinese Corporation and New Chinese Corporation's wholly owned subsidiary, Bridge Electronics (Shenzhen) Co., Ltd, for an aggregate cash consideration of US\$300,000. The Group recognised a gain on disposal of US\$105,000 in the consolidated income statement during the financial year ended 31 December 2017.

Notes to The Financial Statements

For the financial year ended 31 December 2018

21. Investments in subsidiaries (continued)

(e) Disposal/closure of subsidiaries (continued)

(iii) During the financial year ended 31 December 2017, the Group liquidated/struck off the following subsidiaries:

- Liquidated 70% owned subsidiary, Serial AMSC Microelectronics Co., Ltd
- Struck off 80% owned subsidiary, Agricola Pte Ltd
- Struck off 60% owned subsidiary, Nippon Denka Serial Pte. Ltd.
- Struck off wholly owned subsidiary, Serial I-Tech Strategic Holdings Franchising Pte. Ltd.

	The Group 2017 US\$'000
<u>Carrying amounts of assets and liabilities on disposal/closure of subsidiaries</u>	
Cash and cash equivalents	869
Inventories	72
Trade and other receivables	911
Total assets	<u>1,852</u>
Trade and other payables	1,138
Current income tax liabilities	35
Total liabilities	<u>1,173</u>
Net assets derecognised as above	679
Less: Non-controlling interests	(34)
Net assets disposed off	<u>645</u>

The aggregate cash outflows arising from the disposal/closure of subsidiaries were:

	The Group 2017 US\$'000
Net assets disposed of (as above)	645
Gain on disposal/closure of subsidiaries (Note 5)	105
Cash proceeds from disposal	750
Less: Cash and cash equivalents in subsidiaries disposed/closed	(869)
Net cash outflow on disposal/closure of subsidiaries	<u>(119)</u>

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For the financial year ended 31 December 2018

21. Investments in subsidiaries (continued)

(f) Details of subsidiaries as at 31 December 2018

Name of subsidiaries	Principal activities	Country of incorporation and place of business	Percentage of effective equity interest held by the Group		
			31 December 2018 %	31 December 2017 %	1 January 2017 %
Held by the Company					
⁽¹⁾ Serial Microelectronics Pte Ltd	Investment holding and distribution of electronic and electrical components	Singapore	100.0	100.0	100.0
⁽¹⁾ SCE Enterprise Pte. Ltd.	Investment holding and trading	Singapore	100.0	100.0	100.0
⁽¹⁾ Serial Investment Pte Ltd	Investment holding and trading and rental of investment properties	Singapore	100.0	100.0	100.0
⁽⁴⁾ Serial Investment (Taiwan) Inc.	Investment holding and rental of investment properties	Taiwan	100.0	100.0	100.0
⁽¹⁾ Serial System International Pte. Ltd.	Investment holding	Singapore	100.0	100.0	100.0
⁽¹⁾ Swift-Value Business Pte. Ltd.	Distribution of printer accessories	Singapore	100.0	100.0	100.0
⁽¹⁾ Teampal (S) Pte. Ltd.	Distribution of electronic and electrical components	Singapore	100.0	100.0	–
Held by Serial Microelectronics Pte Ltd					
⁽²⁾⁽⁶⁾ Serial Microelectronics (HK) Limited	Investment holding and distribution of electronic and electrical components	Hong Kong	–	91.0	91.0
⁽³⁾ Serial Microelectronics Korea Limited	Distribution of electronic and electrical components	South Korea	100.0	100.0	100.0
⁽⁴⁾ Serial Microelectronics Inc.	Investment holding and distribution of electronic and electrical components	Taiwan	95.5	95.5	95.5
⁽¹⁾ Teampal (S) Pte. Ltd.	Distribution of electronic and electrical components	Singapore	–	–	100.0
⁽⁵⁾ PT. Serial Microelectronics Indonesia	In process of liquidation	Indonesia	99.0	99.0	99.0
⁽³⁾ Serial Microelectronics Sdn. Bhd.	Distribution of electronic and electrical components	Malaysia	100.0	100.0	100.0

Notes to The Financial Statements

For the financial year ended 31 December 2018

21. Investments in subsidiaries (continued)

(f) Details of subsidiaries as at 31 December 2018 (continued)

Name of subsidiaries	Principal activities	Country of incorporation and place of business	Percentage of effective equity interest held by the Group		
			31 December 2018 %	31 December 2017 %	1 January 2017 %
Held by Serial Microelectronics Pte Ltd (continued)					
(1) STECH Global Trading Pte. Ltd. (Formerly known as Serial GIS Pte. Ltd.)	Inactive	Singapore	90.0	70.0	70.0
(5) Serial Microelectronics India LLP	Provision of management, marketing and administrative services	India	99.0	99.0	–
(5) Serial Electronics Investment Limited	Investment holding	British Virgin Islands	100.0	–	–
Held by Serial Electronics Investment Limited					
(5) XIN Holdings International Limited	Investment holding	Cayman Islands	91.0	–	–
Held by XIN Holdings International Limited					
(5) Xin Capital Limited	Investment holding	British Virgin Islands	91.0	–	–
Held by Xin Capital Limited					
(2) Serial Microelectronics (HK) Limited	Investment holding and distribution of electronic and electrical components	Hong Kong	91.0	–	–
Held by SCE Enterprise Pte. Ltd.					
(1) Serial Multivision Pte. Ltd.	Hospitality and healthcare solutions	Singapore	100.0	100.0	100.0
(1) Contract Sterilization Services Pte Ltd	Assembly and distribution of medical devices and ethylene oxide sterilization	Singapore	100.0	100.0	100.0
(1) Serial I-Tech (Far East) Pte. Ltd.	Investment holding and trading and distribution of consumer products, IT and photographic products	Singapore	100.0	100.0	100.0
(1) Hydra & Thermal Pte. Ltd.	Investment holding and distribution of consumer products and household appliances	Singapore	70.0	70.0	70.0

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For the financial year ended 31 December 2018

21. Investments in subsidiaries (continued)

(f) Details of subsidiaries as at 31 December 2018 (continued)

Name of subsidiaries	Principal activities	Country of incorporation and place of business	Percentage of effective equity interest held by the Group		
			31 December 2018 %	31 December 2017 %	1 January 2017 %
Held by SCE Enterprise Pte. Ltd. (continued)					
⁽³⁾ PT. Achieva Technology Indonesia	Importing of computer peripherals, IT accessories and electronic products	Indonesia	80.0	80.0	80.0
⁽¹⁾ Achieva Technology Pte Ltd	Investment holding and distribution and marketing of information technology, computer peripherals, parts, software and related products	Singapore	100.0	100.0	100.0
Held by Serial System International Pte. Ltd.					
⁽³⁾ Serial Factoring (Thailand) Co., Ltd.	Provision of project financing in the form of leasing, hire purchase, factoring and loan	Thailand	49.0	49.0	49.0
⁽¹⁾ Print-IQ Singapore Pte. Ltd.	Provision of managed print services and the administrative, maintenance and distribution of copier and printers	Singapore	70.0	70.0	–
⁽¹⁾ Bast Investment Pte. Ltd.	Investment holding	Singapore	55.0	55.0	–
⁽⁵⁾ Musang Durian King Pte. Ltd.	Dormant	Singapore	100.0	100.0	–
⁽¹⁾ SB Global Ventures Pte. Ltd.	Investment holding	Singapore	65.0	–	–
Held by Bast Investment Pte. Ltd.					
⁽³⁾ Bast Global Sdn. Bhd.	Investment holding	Malaysia	55.0	55.0	–
Held by Serial Microelectronics (HK) Limited					
⁽²⁾ Serial Design Limited	Distribution of electronic and electrical components	Hong Kong	91.0	91.0	91.0
⁽²⁾ Serial Microelectronics (Shenzhen) Co., Ltd	Distribution of electronic and electrical components	China	91.0	91.0	91.0
⁽²⁾ Serial Automotive Limited	Investment holding and distribution of electronic component modules focusing on automotive customers	Hong Kong	54.6	54.6	54.6
⁽²⁾ Serial Vision Limited	Distribution of electronic and electrical components	Hong Kong	91.0	91.0	50.1

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For the financial year ended 31 December 2018

21. Investments in subsidiaries (continued)

(f) Details of subsidiaries as at 31 December 2018 (continued)

Name of subsidiaries	Principal activities	Country of incorporation and place of business	Percentage of effective equity interest held by the Group		
			31 December 2018 %	31 December 2017 %	1 January 2017 %
Held by Serial Microelectronics (HK) Limited (continued)					
⁽²⁾ Serial Microelectronics (Beijing) Co., Ltd	Investment holding	China	91.0	91.0	91.0
⁽²⁾ Newstone Technology Limited	Investment holding and marketing, promotion, sale, export and distribution of semiconductor components	Hong Kong	46.4	46.4	46.4
⁽²⁾ Xuanhong Automotive Electronics Limited	Investment holding and distribution of semiconductor components focusing on automotive segment	Hong Kong	63.7	63.7	–
Held by Serial Automotive Limited					
⁽²⁾ Serial Automotive (Shanghai) Co., Ltd.	Distribution of electronic component modules focusing on automotive segment	China	54.6	54.6	54.6
Held by Newstone Technology Limited					
⁽²⁾ Newstone Technology (Shenzhen) Company Limited	Marketing, promotion, sale, export and distribution of semiconductor components	China	46.4	46.4	–
Held by Xuanhong Automotive Electronics Limited					
⁽²⁾ Xuanli Automotive Electronics Co., Limited	Distribution of semiconductor components focusing on automotive segment	China	63.7	63.7	–
Held by Serial Microelectronics Inc.					
⁽⁴⁾ TeamPal Enterprise Corp.	Inactive	Taiwan	95.5	95.5	95.5
Held by Serial I-Tech (Far East) Pte. Ltd.					
⁽⁵⁾ Serial I-Tech (ME) Pte. Ltd.	Inactive	British Virgin Islands	100.0	100.0	100.0
⁽⁵⁾ Serial I-Tech (Cambodia) Pte Ltd	In process of liquidation	Cambodia	100.0	100.0	100.0
⁽⁵⁾ JEL Trading (Bangladesh) Ltd	Dormant	Bangladesh	100.0	100.0	100.0

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For the financial year ended 31 December 2018

21. Investments in subsidiaries (continued)

(f) Details of subsidiaries as at 31 December 2018 (continued)

Name of subsidiaries	Principal activities	Country of incorporation and place of business	Percentage of effective equity interest held by the Group		
			31 December 2018 %	31 December 2017 %	1 January 2017 %
Held by Serial I-Tech (Far East) Pte. Ltd. (continued)					
(1) Inkcarts Pte. Ltd.	Trading and distribution of computers and peripheral equipment, IT and electronic products	Singapore	100.0	100.0	–
Held by Achieva Technology Pte Ltd					
(5) Achieva Technology Australia Pty Ltd	Inactive	Australia	100.0	100.0	100.0
(3) Achieva Technology Sdn. Bhd.	Distribution and marketing of information technology, computer peripherals, parts, software and related products	Malaysia	100.0	100.0	100.0
Held by Hydra & Thermal Pte. Ltd.					
(5) Hydra & Thermal International (Cambodia) Co., Ltd	Inactive	Cambodia	70.0	70.0	70.0
(5) Serial Netcom Co., Ltd	Inactive	Cambodia	42.0	42.0	42.0

(1) Audited by Moore Stephens LLP, Singapore.

(2) Audited by PricewaterhouseCoopers, Hong Kong.

(3) Audited by member firms of Moore Stephens International Limited of which Moore Stephens LLP, Singapore is a member.

(4) Audited by ShineWing Taiwan CPAs, Taipei, Taiwan.

(5) Reviewed by Moore Stephens LLP, Singapore for the purposes of consolidation. These entities are not considered significant subsidiaries pursuant to the Listing Manual of the Singapore Exchange Securities Trading Limited.

(6) Pursuant to the group's reorganisation, Serial Microelectronics (HK) Limited became a wholly owned subsidiary of Xin Capital Limited during the financial year. The Group's effective interest in Serial Microelectronics (HK) Limited remains unchanged at 91.0% subsequent to the reorganisation.

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For the financial year ended 31 December 2018

22. Property, plant and equipment

The Group	Leasehold land US\$'000	Leasehold buildings US\$'000	Freehold land US\$'000	Freehold buildings US\$'000	Renovations US\$'000	Furniture and fittings US\$'000	Office equipment US\$'000	Other equipment US\$'000	Motor vehicles US\$'000	Computers US\$'000	Total US\$'000
2018											
Cost											
At 1 January 2018	1,585	27,001	1,904	7,962	5,584	1,629	1,851	764	1,242	4,011	53,533
Additions	-	-	-	-	347	49	262	53	688	486	1,885
Disposals/write-off	-	-	-	-	(228)	(2)	(12)	(3)	(536)	(317)	(1,098)
Currency translation differences	(34)	(923)	(89)	(276)	(142)	(33)	(30)	(13)	(23)	(51)	(1,614)
At 31 December 2018	1,551	26,078	1,815	7,686	5,561	1,643	2,071	801	1,371	4,129	52,706
Accumulated depreciation											
At 1 January 2018	393	3,334	-	624	4,238	1,361	1,275	614	854	3,210	15,903
Depreciation charges (Note 6)	29	768	-	134	820	134	279	74	155	537	2,930
Disposals/write-off	-	-	-	-	(228)	(1)	(12)	(2)	(457)	(316)	(1,016)
Currency translation differences	(9)	(151)	-	(26)	(120)	(25)	(29)	(11)	(18)	(45)	(434)
At 31 December 2018	413	3,951	-	732	4,710	1,469	1,513	675	534	3,386	17,383
Net book value											
At 31 December 2018	1,138	22,127	1,815	6,954	851	174	558	126	837	743	35,323

Notes to The Financial Statements

For the financial year ended 31 December 2018

22. Property, plant and equipment (continued)

	Leasehold land US\$'000	Leasehold buildings US\$'000	Freehold land US\$'000	Freehold buildings US\$'000	Renovations US\$'000	Furniture and fittings US\$'000	Office equipment US\$'000	Other equipment US\$'000	Motor vehicles US\$'000	Computers US\$'000	Total US\$'000
The Group											
2017											
Cost											
At 1 January 2017	1,472	24,244	1,688	7,282	5,097	1,836	1,404	4,316	1,178	3,527	52,044
Additions	-	-	-	-	233	58	420	55	-	416	1,182
Acquisition of subsidiaries [Note 21(a)(iii)(c)]	-	-	-	-	-	4	3	1	5	33	46
Transfer from investment properties [Note 22(f)]	-	1,157	-	-	-	-	-	-	-	-	1,157
Disposals/write-off	-	-	-	-	(21)	(316)	(68)	(3,892)	(21)	(22)	(4,340)
Currency translation differences	113	1,600	216	680	275	47	92	284	80	57	3,444
At 31 December 2017	1,585	27,001	1,904	7,962	5,584	1,629	1,851	764	1,242	4,011	53,533
Accumulated depreciation											
At 1 January 2017	336	2,414	-	439	3,520	1,496	1,100	4,149	673	2,717	16,844
Depreciation charges (Note 6)	28	712	-	132	538	141	199	74	151	480	2,455
Disposals/write-off	-	-	-	-	(12)	(313)	(64)	(3,892)	(10)	(21)	(4,312)
Currency translation differences	29	208	-	53	192	37	40	283	40	34	916
At 31 December 2017	393	3,334	-	624	4,238	1,361	1,275	614	854	3,210	15,903
Net book value											
At 31 December 2017	1,192	23,667	1,904	7,338	1,346	268	576	150	388	801	37,630
At 1 January 2017	1,136	21,830	1,688	6,843	1,577	340	304	167	505	810	35,200

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For the financial year ended 31 December 2018

22. Property, plant and equipment (continued)

The Company	Renovations US\$'000	Furniture and fittings US\$'000	Office equipment US\$'000	Other equipment US\$'000	Motor vehicles US\$'000	Computers US\$'000	Total US\$'000
2018							
Cost							
At 1 January 2018	403	548	255	105	403	1,390	3,104
Additions	–	6	4	–	435	167	612
Disposals	–	–	–	–	(401)	–	(401)
At 31 December 2018	403	554	259	105	437	1,557	3,315
Accumulated depreciation							
At 1 January 2018	392	544	238	72	323	1,180	2,749
Depreciation charges	3	4	12	17	36	130	202
Disposals	–	–	–	–	(356)	–	(356)
At 31 December 2018	395	548	250	89	3	1,310	2,595
Net book value							
At 31 December 2018	8	6	9	16	434	247	720
2017							
Cost							
At 1 January 2017	395	547	245	80	403	1,183	2,853
Additions	8	1	10	25	–	207	251
At 31 December 2017	403	548	255	105	403	1,390	3,104
Accumulated depreciation							
At 1 January 2017	391	540	224	59	285	1,049	2,548
Depreciation charges	1	4	14	13	38	131	201
At 31 December 2017	392	544	238	72	323	1,180	2,749
Net book value							
At 31 December 2017	11	4	17	33	80	210	355
At 1 January 2017	4	7	21	21	118	134	305

- (a) As at the reporting date, the carrying amount of office equipment and motor vehicles held under finance lease agreements for the Group and the Company amounted to US\$663,000 (2017: US\$186,000; 1 January 2017: US\$130,000) and US\$436,000 (2017: US\$6,000; 1 January 2017: Nil) respectively [Note 27(a)(vii)].

During the financial year, the Group and the Company acquired motor vehicles amounting to US\$351,000 and US\$262,000 respectively under finance lease agreements. During the financial year ended 31 December 2017, the Group and the Company acquired office equipment amounting to US\$67,000 and US\$7,000 respectively under finance lease agreements.

- (b) The Group's leasehold land and building at 8 Ubi View, Serial System Building, Singapore used by the Group and classified as property, plant and equipment, has a net carrying value amounting to US\$7,122,000 (2017: US\$7,274,000; 1 January 2017: US\$7,060,000).

The leasehold land and building is held as security for bank borrowings of the Company amounting to US\$6,442,000 (2017: US\$8,975,000; 1 January 2017: US\$10,526,000) as disclosed in Note 27(a)(i).

Notes to The Financial Statements

For the financial year ended 31 December 2018

22. Property, plant and equipment (continued)

- (c) The Group's freehold building in Taipei, Taiwan, used by the Group and classified as property, plant and equipment, has a net carrying value amounting to US\$3,241,000 (2017: US\$3,373,000; 1 January 2017: US\$3,135,000). The freehold building is held as security for the Group's bank borrowings of US\$5,113,000 (2017: US\$5,560,000; 1 January 2017: US\$5,386,000) as disclosed in Note 27(a)(ii). See Note 23(a) for the portion of the freehold building included as investment properties.
- (d) The Group's freehold land and building in Seoul, South Korea used by the Group and classified as property, plant and equipment, has a net carrying value amounting to US\$4,730,000 (2017: US\$5,049,000; 1 January 2017: US\$4,554,000). The freehold land and building, which was held as security for the Group's bank borrowings of US\$373,000 as at 31 December 2017 (1 January 2017: US\$993,000) has been fully repaid during the financial year [Note 27(a)(iii)].
- (e) The Group's freehold building in Penang, Malaysia used by the Group and classified as property, plant and equipment, has a net carrying value amounting to US\$799,000 (2017: US\$820,000; 1 January 2017: US\$841,000). The freehold building is held as security for the Group's bank borrowings of US\$449,000 (2017: US\$491,000; 1 January 2017: US\$493,000) as disclosed in Note 27(a)(iv).
- (f) During the financial year ended 31 December 2017, the Group transferred its leasehold building in China with a fair value amounting to US\$1,157,000 from investment properties (Note 23) to property, plant and equipment for own use.

23. Investment properties

	The Group		
	31 December 2018 US\$'000	31 December 2017 US\$'000	1 January 2017 US\$'000
Investment properties	4,402	4,534	5,267

	The Group	
	2018 US\$'000	2017 US\$'000
Beginning of financial year	4,534	5,267
Transfer to property, plant and equipment [Note 22(f)]	–	(1,157)
	4,534	4,110
Fair value loss (Note 6)	–	(9)
Currency translation differences	(132)	433
End of financial year	4,402	4,534

- (a) The Group's freehold building in Taipei, Taiwan which is leased to an associated company, Bull Will Co., Ltd, with fair value of US\$4,402,000 (2017: US\$4,534,000; 1 January 2017: US\$4,189,000) is held as security for the Group's borrowings of US\$5,113,000 (2017: US\$5,560,000; 1 January 2017: US\$5,386,000) as disclosed in Note 27(a)(ii).
- (b) The Group has no restrictions on the reliability of its investment properties and no contractual obligations to purchase, construct or develop investment property or for repairs, maintenance or enhancements.

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For the financial year ended 31 December 2018

23. Investment properties (continued)

- (c) As at the reporting date, investment properties are carried at fair values, determined by independent professional valuers. Valuations are performed annually based on the investment properties' highest-and-best use value using the Direct Market Comparison Method.

The following amounts in respect of the investment properties are recognised in the consolidated income statement:

	The Group	
	2018	2017
	US\$'000	US\$'000
Rental income	70	106
Direct operating expenses on investment properties that generated rental income	(6)	(7)

24. Intangible assets

	The Group			The Company		
	31 December 2018	31 December 2017	1 January 2017	31 December 2018	31 December 2017	1 January 2017
	US\$'000	US\$'000	US\$'000	US\$'000	US\$'000	US\$'000
Goodwill arising from acquisition of subsidiaries	8,698	13,432	14,129	–	–	–
Computer software license costs	339	338	539	58	248	465
Distribution rights	25	39	53	–	–	–
	9,062	13,809	14,721	58	248	465

- (a) Goodwill arising from acquisition of subsidiaries

	The Group	
	2018	2017
	US\$'000	US\$'000
Cost		
Beginning of financial year	20,880	20,677
Acquisition of subsidiary [Note 21(a)(iii)(c)]	–	146
Currency translation differences	(208)	57
End of financial year	20,672	20,880
Accumulated impairment loss		
Beginning of financial year	7,448	6,548
Impairment losses (Note 6)	4,526	900
End of financial year	11,974	7,448
Net book value	8,698	13,432

Impairment tests for goodwill

Goodwill is allocated to the Group's cash-generating units ("CGUs") identified according to geographical and business segments.

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For the financial year ended 31 December 2018

24. Intangible assets (continued)

- (a) Goodwill arising from acquisition of subsidiaries (continued)

Impairment tests for goodwill (continued)

A segment-level geographical summary of the goodwill allocation is presented below:

	Electronic components distribution				Consumer products distribution				Other businesses				Total			
	31 December 2017		1 January 2017		31 December 2017		1 January 2017		31 December 2017		1 January 2017		31 December 2017		1 January 2017	
	US\$'000	US\$'000	US\$'000	US\$'000	US\$'000	US\$'000	US\$'000	US\$'000	US\$'000	US\$'000	US\$'000	US\$'000	US\$'000	US\$'000	US\$'000	US\$'000
The Group																
Singapore	-	-	-	-	5,091	9,794	10,417	1,455	1,486	1,560	6,546	11,280	11,977			
Hong Kong	1,292	1,292	1,292	-	-	-	-	-	-	-	1,292	1,292	1,292			
South Korea	860	860	860	-	-	-	-	-	-	-	860	860	860			
	2,152	2,152	2,152	5,091	9,794	10,417	1,455	1,486	1,560	8,698	13,432	14,129				

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For the financial year ended 31 December 2018

24. Intangible assets (continued)

(a) Goodwill arising from acquisition of subsidiaries (continued)

Impairment tests for goodwill (continued)

The recoverable amount of a CGU was determined based on value-in-use calculations. Cash flow projections used in these calculations were based on the financial budgets approved by management covering a one-year period. Cash flows beyond the one-year period to the fifth year were extrapolated using the estimated growth rates stated below. The forecasted growth rates are based on management's best estimates from industry research and do not exceed the long-term average growth rate for the electronic components distribution, consumer products distribution and other businesses in which the CGU operated.

Key assumptions used for value-in-use calculations:

Electronic components distribution

	Hong Kong		South Korea	
	2018	2017	2018	2017
Gross margin ⁽¹⁾	7.0%	7.0%	8.6%	9.0%
Growth rate ⁽²⁾	2.0%	2.6%	2.0%	2.0%
Discount rate ⁽³⁾	9.3%	10.0%	9.3%	10.0%

Consumer products distribution

	Singapore	
	2018	2017
Gross margin ⁽¹⁾	19.7%	13.3%
Growth rate ⁽²⁾	11.4%	5.1%
Discount rate ⁽³⁾	9.3%	10.0%

Other businesses

	Singapore	
	2018	2017
Gross margin ⁽¹⁾	56.6%	56.5%
Growth rate ⁽²⁾	3.0%	2.9%
Discount rate ⁽³⁾	9.3%	10.0%

- (1) Budgeted gross margin based on management's assumptions with reference to past and expected future performance.
 (2) Weighted average growth rate used to extrapolate cash flows for the first five-year period. Thereafter, the terminal growth rate used beyond the fifth year is zero.
 (3) Pre-tax discount rate applied to the pre-tax cash flow projections estimated based on the specific circumstances of the Group and its operating segments and derived from its weighted average cost of capital.

These assumptions were used for the analysis of each CGU. Management determined budgeted gross margin based on past performance and its expectations of the market development. The weighted average growth rates used were consistent with the forecasts included in industry reports. The discount rates used were pre-tax and reflect specific risks relating to the relevant segment.

Impairment charges of US\$4,526,000 (2017: US\$900,000) were provided during the financial year. The impairment charges arose mainly from the consumer products distribution's CGU in Singapore where the carrying amount of each CGU exceeds the recoverable amount of each CGU as the environment became more competitive coupled with rising business costs.

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For the financial year ended 31 December 2018

24. Intangible assets (continued)

(b) Computer software license costs

	The Group		The Company	
	2018 US\$'000	2017 US\$'000	2018 US\$'000	2017 US\$'000
Beginning of financial year	338	539	248	465
Additions	265	102	21	49
Acquisition of subsidiaries [Note 21(a)(iii)(c)]	–	28	–	–
Amortisation (Note 6)	(266)	(338)	(211)	(266)
Currency translation differences	2	7	–	–
End of financial year	339	338	58	248
Cost	3,283	3,016	2,606	2,585
Accumulated amortisation	(2,944)	(2,678)	(2,548)	(2,337)
Net book value	339	338	58	248

(c) Distribution rights

	The Group	
	2018 US\$'000	2017 US\$'000
Beginning of financial year	39	53
Amortisation (Note 6)	(14)	(14)
End of financial year	25	39
Cost	11,233	11,233
Accumulated amortisation	(11,208)	(11,194)
Net book value	25	39

25. Other assets

	The Group		
	31 December 2018 US\$'000	31 December 2017 US\$'000	1 January 2017 US\$'000
Other investment [Note 25(a)]	–	615	615
Club memberships [Note 25(b)]	136	143	127
Deposits [Note 25(c)]	430	413	326
	566	1,171	1,068

(a) Other investment relates to an interest in a residential and commercial property development investment on two pieces of land located in Phnom Penh, Cambodia. The investment was reclassified to financial assets, at fair value through profit or loss on 1 January 2018 (Note 14).

(b) The club memberships are denominated in Korean Won.

Notes to The Financial Statements

For the financial year ended 31 December 2018

25. Other assets (continued)

- (c) Deposits relate mainly to refundable deposits placed for the rental of office units for certain subsidiaries. These deposits are refundable upon termination of the tenancy agreements and the Company does not anticipate the carrying amounts recorded at the reporting date to be significantly different from the values that would eventually be refunded. The currency exposure for deposits are disclosed in Note 38(a)(i) to the financial statements under "other financial assets".

26. Trade and other payables

	The Group			The Company		
	31 December 2018 US\$'000	31 December 2017 US\$'000	1 January 2017 US\$'000	31 December 2018 US\$'000	31 December 2017 US\$'000	1 January 2017 US\$'000
Current						
Trade payables:						
Third parties	93,012	127,460	137,712	–	–	–
Associated companies	–	13	2	–	–	–
	93,012	127,473	137,714	–	–	–
Other payables and accrued operating expenses	62,444 ⁽¹⁾	37,487	39,883	2,010	1,839	2,399
Derivative financial instruments [Note 26(a)]	1,165	470	166	–	–	–
Due to subsidiaries [Note 26(b)]	–	–	–	10,920	18,623	6,063
Due to associated companies [Note 26(c)]	–	14	72	–	9	29
Contingent consideration payable	–	–	672	–	–	–
Financial guarantee contracts	–	–	–	836	1,268	637
Total	156,621	165,444	178,507	13,766	21,739	9,128
Non-current						
Due to a subsidiary [Note 26(d)]						
Interest bearing	–	–	–	12,028	–	6,078
Non-interest bearing						
Gross amount	–	–	–	–	2,992	–
Less: Fair value adjustment to investment in subsidiaries	–	–	–	(185)	(500)	–
Add: Imputed interest recognised in Company's income Statement	–	–	–	185	93	–
	–	–	–	12,028	2,585	–
Total	–	–	–	12,028	2,585	6,078

- (1) Included in other payables and accrued operating expenses is a contingent consideration received under the Business Transfer Agreement executed between one of the Group's subsidiary and a third party distributor.

Notes to The Financial Statements

For the financial year ended 31 December 2018

26. Trade and other payables (continued)

- (a) The Group used foreign exchange forward contracts to manage exposures to currency risks arising from inter-company loans denominated in Singapore Dollar, New Taiwan Dollar, Chinese Renminbi, Australian Dollar, Malaysian Ringgit and Japanese Yen.

As at the reporting date, the outstanding non-hedging derivative financial instruments comprised:

	The Group					
	2018		2017		2016	
	Contract notional amount US\$'000	Fair value liability US\$'000	Contract notional amount US\$'000	Fair value liability US\$'000	Contract notional amount US\$'000	Fair value liability US\$'000
Foreign exchange forward contracts	29,013	1,165	44,200	470	3,400	166

The range of the contractual rates to buy or sell United States Dollar against the respective foreign currencies are summarised as follows:

	2018	2017
	Sell United States Dollar	Buy United States Dollar
Against Australian Dollar	1.361	–
Against Singapore Dollar	–	1.338 to 1.364
Against New Taiwan Dollar	–	29.80 to 30.00

These foreign exchange forward contracts have maturity dates within eight months (2017: eight months; 1 January 2017: two months) from the reporting date.

- (b) As at the reporting date, the amounts due to subsidiaries are non-trade in nature, unsecured, interest-free and are repayable in cash, on demand, except for an amount of US\$9,102,000 (2017: US\$17,640,000; 1 January 2017: US\$5,283,000) due to subsidiaries which bears interest at 5.25% (2017: 3.35%; 1 January 2017: 3.72%) per annum.
- (c) The amounts due to associated companies as at 31 December 2017 and 1 January 2017 were non-trade in nature, unsecured, interest-free and were repayable in cash on demand. These amounts were repaid in full during the financial year.
- (d) As at the reporting date, the non-trade amounts due to subsidiaries of US\$8,828,000 and US\$3,200,000 bear interest at 4.94% and 5.56% per annum respectively and are repayable on 31 December 2021.

As at 31 December 2017, the amount due to a subsidiary of US\$2,992,000 was interest-free and repayable on 31 December 2021. The amount was adjusted to be measured at fair value at date of inception. The amount was repaid in full during the current financial year.

As at 1 January 2017, the amount due to a subsidiary was non-trade in nature, bore interest at 3.72% per annum and was repayable on 31 December 2020.

Notes to The Financial Statements

For the financial year ended 31 December 2018

27. Borrowings

	The Group			The Company		
	31 December 2018 US\$'000	31 December 2017 US\$'000	1 January 2017 US\$'000	31 December 2018 US\$'000	31 December 2017 US\$'000	1 January 2017 US\$'000
Current						
Bank borrowings	67,832	53,214	25,673	6,442	2,394	2,216
Trust receipts	140,052	172,450	160,420	–	–	–
Finance lease liabilities	89	33	18	54	1	–
Other borrowing	3,470	3,545	3,282	–	–	–
	211,443	229,242	189,393	6,496	2,395	2,216
Non-current						
Bank borrowings	3,282	10,278	15,007	–	6,581	8,310
Finance lease liabilities	312	62	25	208	6	–
	3,594	10,340	15,032	208	6,587	8,310
Total	215,037	239,582	204,425	6,704	8,982	10,526

(a) Security granted/corporate guarantees granted

- (i) As at the reporting date, the balance of the S\$20,000,000 (US\$14,641,000) four-year term loan drawn down by the Company amounting to US\$6,442,000 (2017: US\$8,975,000; 1 January 2017: US\$10,526,000) included in current borrowings of US\$6,442,000 (2017: US\$2,394,000; 1 January 2017: US\$2,216,000) and non-current borrowings of Nil (2017: US\$6,581,000; 1 January 2017: US\$8,310,000) of the Group and the Company is secured by the following:
 - a first legal mortgage of the leasehold land and building at 8 Ubi View, Serial System Building, Singapore ("Mortgaged Property") [Note 22(b)];
 - 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.
- (ii) As at the reporting date, bank borrowing amounting to US\$5,113,000 (2017: US\$5,560,000; 1 January 2017: US\$5,386,000), included in current borrowings of US\$2,226,000 (2017: US\$2,298,000; 1 January 2017: US\$2,119,000) and non-current borrowings of US\$2,887,000 (2017: US\$3,262,000; 1 January 2017: US\$3,268,000), is due by a wholly owned subsidiary, Serial Investment (Taiwan) Inc. to partially finance the acquisition of a freehold building of the Group. The bank borrowing is secured by a first legal mortgage of the freehold building [Note 22(c) and Note 23(a)].
- (iii) As at 31 December 2017, bank borrowing amounting to US\$373,000 included in current borrowings (1 January 2017: included in current borrowings of US\$662,000 and non-current borrowings of US\$331,000), and due by a wholly owned subsidiary, Serial Microelectronics Korea Limited to partially finance the acquisition of a freehold land and building, was secured by a first legal mortgage of the freehold land and building [Note 22(d)]. The bank borrowing was fully repaid during the financial year.

Notes to The Financial Statements

For the financial year ended 31 December 2018

27. Borrowings (continued)

(a) Security granted/corporate guarantees granted (continued)

- (iv) As at the reporting date, the balance of the MYR2,247,000 (US\$542,000) ten-year term loan drawn down by a wholly owned Malaysia subsidiary, Serial Microelectronics Sdn. Bhd. to part finance the acquisition of a property in Malaysia amounting to US\$449,000 (2017: US\$491,000; 1 January 2017: US\$493,000) included in current borrowings of US\$54,000 (2017: US\$56,000; 1 January 2017: US\$50,000) and non-current borrowings of US\$395,000 (2017: US\$435,000; 1 January 2017: US\$443,000) is secured by a first legal mortgage of the freehold building [Note 22(e)].
- (v) Other than disclosed in Note 27(a)(i), (ii), (iii) and (iv) above, current bank borrowings amounting to US\$28,272,000 (2017: US\$44,968,000; 1 January 2017: US\$17,707,000) of the Group are obtained with corporate guarantees of the Company and certain subsidiaries of the Group. The remaining current borrowings of US\$30,838,000 (2017: US\$3,125,000; 1 January 2017: US\$2,919,000) are unsecured.
- (vi) Trust receipts of US\$128,288,000 (2017: US\$167,605,000; 1 January 2017: US\$157,604,000) for all subsidiaries are obtained with the corporate guarantees of the Company. The remaining trust receipts of US\$11,764,000 (2017: US\$4,845,000; 1 January 2017: US\$2,816,000) are unsecured.
- (vii) As at the reporting date, finance lease liabilities amounting to US\$262,000 (2017: US\$7,000; 1 January 2017: Nil) of the Company and US\$401,000 (2017: US\$95,000; 1 January 2017: US\$43,000) of the Group are secured on office equipment and motor vehicles, which have been acquired under finance lease arrangements [Note 22(a)].
- (viii) Other borrowing of US\$3,470,000 (2017: US\$3,545,000; 1 January 2017: US\$3,282,000) included in current borrowings, is due to the previous shareholder of Swift-Value Business Pte. Ltd. and not secured.

(b) Maturity of borrowings

The maturity of the borrowings is as follows:

	The Group			The Company		
	31 December 2018 US\$'000	31 December 2017 US\$'000	1 January 2017 US\$'000	31 December 2018 US\$'000	31 December 2017 US\$'000	1 January 2017 US\$'000
Within one year	211,443	229,242	189,393	6,496	2,395	2,216
Between one and five years	1,674	8,486	13,063	208	6,587	8,310
Over five years	1,920	1,854	1,969	—	—	—

Notes to The Financial Statements

For the financial year ended 31 December 2018

27. Borrowings (continued)

(c) Interest rate risk

The weighted average effective interest rates of the borrowings as at the reporting date are as follows:

The Group	Singapore Dollar	United States Dollar	Hong Kong Dollar	New Taiwan Dollar	Korean Won	Malaysian Ringgit	Thailand Baht	Indonesian Rupiah
31 December 2018								
Bank borrowings	3.66%	4.25%	3.38%	1.81%	4.08%	3.04%	2.50%	–
Trust receipts	3.83%	4.93%	–	1.68%	–	–	–	–
Finance lease liabilities	4.40%	–	–	–	–	–	–	–
31 December 2017								
Bank borrowings	2.94%	3.15%	3.25%	1.92%	3.76%	2.33%	–	–
Trust receipts	3.20%	3.82%	–	3.36%	–	3.49%	–	–
Finance lease liabilities	3.07%	–	–	–	–	–	–	4.69%

The Company

	Singapore Dollar 31 December 2018	31 December 2017
Bank borrowing	3.52%	2.80%
Finance lease liability	5.19%	3.21%

(d) Carrying amounts and fair values

As at the reporting date, the carrying amounts of current borrowings approximate their fair values.

The fair values of non-current borrowings are as follows:

	Carrying amount			Fair value		
	31 December 2018	31 December 2017	1 January 2017	31 December 2018	31 December 2017	1 January 2017
	US\$'000	US\$'000	US\$'000	US\$'000	US\$'000	US\$'000
Bank borrowings and finance lease liabilities						
The Group	3,594	10,340	15,032	3,543	9,947	14,572
The Company	208	6,587	8,310	199	6,301	8,025

The fair values are determined from discounted cash flows analysis, discounted at the borrowing rates which the management expects to be available to the Group and the Company at the reporting date.

Notes to The Financial Statements

For the financial year ended 31 December 2018

27. Borrowings (continued)

(e) Loan compliance

The Group regularly monitors its compliance with the covenants and is up to date with the scheduled repayments of the borrowings. As at the reporting date, the Group complied with financial covenants granted by various banks, except for certain banks, which have the right to call for the immediate repayment of the outstanding borrowings of US\$15,388,000 (2017: US\$41,881,000). The Group obtained waivers from compliance from the relevant banks for borrowings of US\$15,388,000 (2017: US\$41,881,000) subsequent to the financial year end.

(f) Changes in liabilities arising from Financing Activities

The Group	Bank borrowings US\$'000	Trust receipts US\$'000	Finance lease liabilities US\$'000	Other borrowings US\$'000	Total US\$'000
2018					
At 1 January 2018	63,492	172,450	95	3,545	239,582
Proceeds	74,189	895,480	–	–	969,669
Repayment	(65,681)	(927,830)	(44)	–	(993,555)
<u>Non-cash changes</u>					
Adjust to Property, Plant and Equipment addition	–	–	351	–	351
Currency translation differences	(886)	(48)	(1)	(75)	(1,010)
At 31 December 2018	71,114	140,052	401	3,470	215,037
2017					
At 1 January 2017	40,680	160,420	43	3,282	204,425
Proceeds	41,484	825,604	67	–	867,155
Repayment	(19,612)	(814,777)	(15)	–	(834,404)
<u>Non-cash changes</u>					
Currency translation differences	940	1,203	–	263	2,406
At 31 December 2017	63,492	172,450	95	3,545	239,582

28. Finance lease liabilities

The Group and the Company have finance leases for property, plant and equipment (motor vehicles) and office equipment. These leases have terms of renewal but no purchase options and escalation clauses. Renewals are at the options of the specific entity that holds the lease.

	The Group			The Company		
	31 December 2018 US\$'000	31 December 2017 US\$'000	1 January 2017 US\$'000	31 December 2018 US\$'000	31 December 2017 US\$'000	1 January 2017 US\$'000
Minimum lease payments due						
Within one year	101	38	18	61	2	–
Between one and five years	357	70	31	236	6	–
	458	108	49	297	8	–
Less: Future finance charges	(57)	(13)	(6)	(35)	(1)	–
Present value of finance lease liabilities	401	95	43	262	7	–

Notes to The Financial Statements

For the financial year ended 31 December 2018

28. Finance lease liabilities (continued)

The present value of finance lease liabilities is analysed as follows:

	The Group		The Company	
	2018	2017	2018	2017
	US\$'000	US\$'000	US\$'000	US\$'000
Within one year (Note 27)	89	33	54	1
Between one and five years (Note 27)	312	62	208	6
	401	95	262	7

29. Defined benefit plans liabilities

The Group has defined benefit pension plans for certain subsidiaries which require contributions to be made to separately administered funds. The Group provides employees with a minimum severance lump sum benefit equivalent to one month salary for each year of service upon termination for any reason. It is permissible under the current severance pay system for the employer to cash out in whole or in part of the accrued severance benefits to employees who remain in service. The Group funds the employee benefits by settling aside external funds via insurance policies ("plan assets").

(a) The amounts recognised in the statements of financial position are determined as follows:

	The Group		
	31 December 2018 US\$'000	31 December 2017 US\$'000	1 January 2017 US\$'000
Present value of defined benefit obligations	2,088	2,115	1,629
Fair value of plan assets	(1,225)	(1,284)	(1,087)
	863	831	542

(b) Changes in present value of the defined benefit obligations are as follows:

	The Group	
	2018 US\$'000	2017 US\$'000
Beginning of financial year	2,115	1,629
Interest costs – charged to consolidated income statement	47	38
Current service costs – charged to consolidated income statement	497	972
Remeasurement (gain)/loss arising from changes in:		
- demographic assumptions	(87)	(68)
- financial assumptions	114	(61)
Benefits paid	(248)	(187)
Currency translation differences	(350)	(208)
End of financial year	2,088	2,115

Notes to The Financial Statements

For the financial year ended 31 December 2018

29. Defined benefit plans liabilities (continued)

- (c) Changes in fair value of plan assets are as follows:

	The Group	
	2018 US\$'000	2017 US\$'000
Beginning of financial year	1,284	1,087
Interest income – credited to consolidated income statement	38	38
Remeasurement losses – return on plan assets	(30)	(21)
Contribution by the Group	235	232
Benefits paid	(248)	(187)
Currency translation differences	(54)	135
End of financial year	1,225	1,284

- (d) Independent actuarial valuation of the defined benefit plans liabilities was performed and the principal actuarial assumptions used in the actuarial valuation are as follows:

	The Group	
	2018	2017
Discount rate	2.0% - 7.3%	2.5% - 7.3%
Future salary increases	4.5% - 7.0%	4.6% - 7.0%

- (e) The sensitivity analysis below has been determined based on reasonably possible changes of each significant assumption by 0.25% (2017: 0.25%) on the defined benefit plans liabilities as follows:

	The Group	
	Defined benefit plans liabilities	
	increase/(decrease)	
	2018 US\$'000	2017 US\$'000
Discount rate		
- increase	(70)	(69)
- decrease	74	73
Future salary		
- increase	72	71
- decrease	(69)	(68)

The methods and types of assumptions used in preparing the sensitivity analysis during the financial year did not change as compared to the financial year ended 31 December 2017.

- (f) The Group expects to contribute US\$335,000 to the defined benefit plans in 2019 (2017: US\$340,000 in 2018).
- (g) The average duration of the defined benefit obligation as at the reporting date is 6.1 years (2017: 5.5 years) for the defined benefit plans.

Notes to The Financial Statements

For the financial year ended 31 December 2018

30. Deferred income taxes

Deferred income tax assets and liabilities are offset when there is a legally enforceable right to set off current income tax assets against current income tax liabilities and when the deferred income taxes relate to the same fiscal authority. The amounts determined after appropriate offsetting, are shown on the statements of financial position as follows:

	The Group			The Company		
	31 December 2018 US\$'000	31 December 2017 US\$'000	1 January 2017 US\$'000	31 December 2018 US\$'000	31 December 2017 US\$'000	1 January 2017 US\$'000
Recovered/settled after one year						
- Deferred income tax assets	(481)	(841)	(711)	-	-	-
- Deferred income tax liabilities	660	555	271	288	249	-
	179	(286)	(440)	288	249	-

The movements in the deferred income tax account are as follows:

	The Group		The Company	
	2018 US\$'000	2017 US\$'000	2018 US\$'000	2017 US\$'000
Beginning of financial year	(286)	(440)	249	-
Tax charged to consolidated income statement [Note 9(a)]	332	(119)	39	-
Under provision in preceding financial years [Note 9(a)]	31	275	-	249
Currency translation differences	102	(2)	-	-
End of financial year	179	(286)	288	249

Deferred income tax assets are recognised for tax losses and capital allowances carried forward to the extent that realisation of the related tax benefits through future taxable profits is probable. The Group has the following unrecognised tax losses and capital allowances as at the reporting date, which can be carried forward and used to offset against future taxable income, subject to meeting certain statutory requirements by those companies with unrecognised tax losses in their respective countries of incorporation.

	The Group	
	2018 US\$'000	2017 US\$'000
Tax losses	22,032	21,250
Capital allowances	2,784	2,978
	24,816	24,228

The tax losses and capital allowances that are available for offset against future taxable profits, are subject to the agreement of the tax authorities and compliance with the relevant tax provisions. Included in the tax losses as at the reporting date are US\$1,774,000 (2017: US\$1,172,000) arising in China that will expire in one to five years after 31 December 2018. The deferred tax assets arising from these unutilised tax losses and capital allowances have not been recognised because it is not probable that future taxable profits will be available against which the entities can utilise.

Notes to The Financial Statements

For the financial year ended 31 December 2018

30. Deferred income taxes (continued)

As at the reporting date, the aggregate amount of temporary differences associated with undistributed earnings of the subsidiaries of the Group for which no deferred tax liability has been recognised amounted to US\$16,519,000 (2017: US\$15,089,000) based on the Group's policy as stated in Note 2.5. The deferred tax liability not recognised is estimated to be US\$1,958,000 (2017: US\$1,647,000).

The movements in the deferred income tax assets and liabilities (prior to offsetting of balances within the same tax jurisdiction) during the financial year are as follows:

Deferred income tax assets

	Provisions	
	2018	2017
	US\$'000	US\$'000
The Group		
Beginning of financial year	(841)	(711)
Charged/(credited) to consolidated income statement	203	(118)
Currency translation differences	157	(12)
End of financial year	(481)	(841)

Deferred income tax liabilities

	Investment properties	Others	Total
	US\$'000	US\$'000	US\$'000
The Group			
2018			
Beginning of financial year	155	400	555
Charged to consolidated income statement	–	129	129
Under provision in preceding financial years	31	–	31
Currency translation differences	(1)	(54)	(55)
End of financial year	185	475	660
2017			
Beginning of financial year	156	115	271
Credited to consolidated income statement	–	(1)	(1)
(Over)/under provision in preceding financial years	(1)	276	275
Currency translation differences	–	10	10
End of financial year	155	400	555
The Company			
2018			
Beginning of financial year	–	249	249
Charged to income statement	–	39	39
End of financial year	–	288	288
2017			
Beginning of financial year	–	–	–
Under provision in preceding financial years	–	249	249
End of financial year	–	249	249

Notes to The Financial Statements

For the financial year ended 31 December 2018

31. Share capital and treasury shares

	Issued number of shares		Total share capital	
	Share capital '000	Treasury shares '000	Share capital US\$'000	Treasury shares US\$'000
The Group and The Company				
2018				
1 January 2018 and 31 December 2018	905,788	(9,946)	72,648	(736)
2017				
1 January 2017 and 31 December 2017	905,788	(9,946)	72,648	(736)

- (a) All issued shares are fully paid and do not have a par value. The holders of ordinary shares are entitled to receive dividends as and when declared by the Company. All ordinary shares carry one vote per share without restrictions. All shares rank equally with regard to the Company's residual assets.

- (b) Share options

The Serial System Employee Share Option Scheme 2014 (the "2014 Scheme") was approved by the shareholders at the Extraordinary General Meeting of the Company held on 26 April 2014. It replaced the previous Serial System Executives Share Option Scheme (the "2004 Scheme"), which expired on 29 January 2014. Any share options granted and accepted under the 2004 Scheme have been fully exercised upon expiry of the 2004 Scheme on 29 January 2014.

Under the 2014 Scheme, share options are granted to the following persons at the absolute discretion of the 2014 Scheme's committee (the "Committee"):

- (i) confirmed full-time employees of the Company and its subsidiaries who have attained the age of 21 years on or before the date of grant of the share options;
- (ii) executive directors of the Company;
- (iii) non-executive directors of the Company; and
- (iv) employees who qualify under sub-paragraph (i) above and are seconded to an associated company or a company outside the Group in which the Company and/or Group has an equity interest, and who, in the absolute discretion of the Committee is selected to participate in the 2014 Scheme.

For the purpose of paragraph (iv) above, the secondment of an employee to another company shall not be regarded as a break in his employment or his having ceased employment as a full-time employee of the Group by reason only of such secondment.

For non-incentive share options, the exercise price of the granted share options is to be determined by the Committee, in its absolute discretion, at a price equal to the average of the last dealt prices of the Company on the Singapore Exchange Securities Trading Limited ("SGX-ST") for a period of five consecutive trading days ("Market Price") immediately prior to the date of offer of the share options.

For incentive share options, share options are granted at a price which is set at a discount to the Market Price, provided that the maximum discount shall not exceed 20% of the Market Price; and the shareholders of the Company in a general meeting have authorised, in a separate resolution, the making of offers and grants of such share options under the 2014 Scheme at a discount not exceeding the maximum discount as aforesaid.

Notes to The Financial Statements

For the financial year ended 31 December 2018

31. Share capital and treasury shares (continued)

(b) Share options (continued)

The share options are vested one month after the date of offer of the share options. Once the share options are vested, they are exercisable for a term of 10 years, and for non-executive directors of the Company, for a term of 5 years, or such other terms determined by the Committee or prescribed under any relevant law, regulation or rule of the SGX-ST from time to time.

No share options were granted during the financial year ended 31 December 2018 and 31 December 2017.

32. Reserves

	Capital reserve US\$'000
The Company	
2018	
1 January 2018 and 31 December 2018	180
2017	
1 January 2017 and 31 December 2017	180

The movements in the reserves for the Group are set out in the Consolidated Statement of Changes in Equity.

(a) Capital reserve

Capital reserve represents share of capital reserve of an associated company of the Group and the Company's repurchased of its ordinary shares in the open market in prior financial years.

(b) Defined benefit plans reserve

Defined benefit plans reserve represents movements in the net defined benefit plans liabilities or assets resulting from remeasurements at each financial year end.

(c) Fair value reserve

Fair value reserve represents the cumulative fair value changes of financial assets.

(d) Revaluation reserve

Revaluation reserve represents increases in the fair value of investment properties, net of tax, and decreases to the extent that such decrease relates to an increase on the same asset previously recognised in other comprehensive income.

(e) Other reserve

Other reserve represents the equity recognised on differences between the amount by which the non-controlling interests are adjusted and the fair value of any consideration paid or received, and attribute to the Group when the proportion of the equity held by non-controlling interests changes.

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33. Currency translation reserve

	The Company	
	2018 US\$'000	2017 US\$'000
Beginning of financial year	–	17,589
Effect of transition to SFRS(I) 1 - transferred to retained earnings (Note 34)	–	(17,589)
End of financial year	–	–

The movements in the currency translation reserve for the Group are set out in the Consolidated Statement of Changes in Equity.

34. Retained earnings

- (a) Included in the Group's retained earnings of US\$60,401,000 (2017: US\$50,581,000; 1 January 2017: US\$44,036,000) as at the reporting date are legal reserves amounting to US\$357,000 (2017: US\$114,000; 1 January 2017: US\$102,000) which are set aside in compliance with local laws of certain overseas subsidiaries and are non-distributable. These legal reserves can only be used upon approval by the relevant authorities, to offset accumulated losses (if any) or increase capital.
- (b) Movements in retained earnings for the Company are as follows:

	The Company	
	2018 US\$'000	2017 US\$'000
Beginning of financial year	35,284	14,109
Effect of transition to SFRS(I) 1 – transferred from currency translation reserve (Note 33)	–	17,589
Total profit	4,491	6,591
Dividends paid (Note 36)	(12,289)	(3,005)
End of financial year	27,486	35,284

The movements in the retained earnings for the Group are set out in the Consolidated Statement of Changes in Equity.

Notes to The Financial Statements

For the financial year ended 31 December 2018

35. Non-controlling interests

	The Group	
	2018 US\$'000	2017 US\$'000
Beginning of financial year	7,488	4,862
Share of results of subsidiaries	802	1,996
Share of currency translation reserve	(296)	(48)
	506	1,948
Acquisition of subsidiaries [Note 21(a)(iii)(c)]	*	38
Subscription of interests in subsidiaries [Note 35(c), Note 35(d), Note 35(e), Note 35(f) and Note 35(g)]	–	679
Subscription of additional interest in a subsidiary by a non-controlling interest [Note 35(a)]	60	–
Acquisition of additional interests in subsidiaries from non-controlling interests [Note 35(b) and Note 35(h)]	(35)	(5)
Dividends paid to non-controlling interest holders	(287)	–
Closure/disposal of subsidiaries	–	(34)
End of financial year	7,732	7,488

* Amount less than US\$1,000

- (a) On 23 March 2018 and 25 October 2018, the non-controlling interest of PT. Achieva Technology Indonesia subscribed for additional 1,015 new ordinary shares at IDR 1,000,000 (US\$59.11) per share at IDR 1.015 billion (US\$60,000) in the issued and paid up share capital of PT. Achieva Technology Indonesia.
- (b) On 13 July 2018, Serial Microelectronics Pte Ltd, a wholly owned subsidiary increased the equity interests in STECH Global Trading Pte. Ltd. by 20% to 90% via the purchase of 100,000 ordinary shares of STECH Global Trading Pte. Ltd. at US\$35,493 from an existing shareholder.
- (c) On 26 May 2017, the non-controlling interests of Xuanhong Automotive Electronics Limited subscribed for 345,000 ordinary shares at HK\$1 (US\$0.13) per share at HK\$345,000 (US\$44,000) in the issued and paid up share capital of Xuanhong Automotive Electronics Limited.
- (d) On 18 August 2017, the non-controlling shareholders of Xuanhong Automotive Electronics Limited subscribed for RMB 293,000 (US\$45,000) in the registered capital of Xuanli Automotive Electronics Co., Limited.
- (e) On 21 August 2017, the non-controlling interests of Bast Investment Pte. Ltd. subscribed for 135,000 ordinary shares at S\$1.00 (US\$0.74) per share at S\$135,000 (US\$99,000) in the issued and paid up share capital of Bast Investment Pte. Ltd..
- (f) On 13 September 2017, the non-controlling interests of Newstone Technology Limited contributed share capital of HK\$3,822,000 (US\$490,000) subsequent to the incorporation of Newstone Technology Limited on 12 August 2016.
- (g) On 15 September 2017, the non-controlling shareholders of Bast Investment Pte. Ltd. subscribed for 4,500 ordinary shares of MYR1 (US\$0.31) per share at MYR4,500 (US\$1,000) in the issued and paid up share capital of Bast Global Sdn. Bhd..
- (h) On 1 October 2017, Serial Microelectronics (HK) Limited, a 91% owned subsidiary increased the equity interests in Serial Vision Limited by 45% to 100% via the purchase of 4,500 ordinary shares of Serial Vision Limited from an existing shareholder amounting to HK\$4,500 (US\$576).

Notes to The Financial Statements

For the financial year ended 31 December 2018

36. Dividends

	The Group and the Company	
	2018 US\$'000	2017 US\$'000
Ordinary dividends paid:		
One-tier tax-exempt final cash dividend of 0.46 SGD cent (0.35 USD cent) per share paid in respect of the financial year ended 31 December 2017	3,115	–
One-tier tax exempt interim cash dividend of 0.40 SGD cent (0.29 USD cent) per share paid in respect of the financial year ended 31 December 2018	2,621	–
One-tier tax exempt special interim cash dividend of 1.00 SGD cent (0.73 USD cent) per share paid in respect of the financial year ended 31 December 2018	6,553	–
One-tier tax-exempt final cash dividend of 0.17 SGD cent (0.12 USD cent) per share paid in respect of the financial year ended 31 December 2016	–	1,091
One-tier tax-exempt interim cash dividend of 0.29 SGD cent (0.21 USD cent) per share paid in respect of the financial year ended 31 December 2017	–	1,914
Total [Note 34(b)]	12,289	3,005

At the forthcoming Annual General Meeting on 29 April 2019, a one-tier tax-exempt final cash dividend of 0.46 SGD cent (0.34 USD cent) per share will be recommended for approval by shareholders of the Company. These financial statements do not reflect this dividend payable, which will be accounted for in the shareholders' equity as an appropriation of retained earnings in the financial year ending 31 December 2019, subject to shareholders' approval at the forthcoming Annual General Meeting on 29 April 2019.

37. Commitments and contingencies

(a) Guarantees

	The Group		The Company	
	2018 US\$'000	2017 US\$'000	2018 US\$'000	2017 US\$'000
Unsecured guarantees provided by the Company for/to:				
- banking facilities of subsidiaries	–	–	156,560	221,214
- suppliers of subsidiaries	–	–	4,929	5,654
Unsecured bank guarantees provided by the subsidiaries for/to:				
- suppliers of subsidiaries	3,457	5,844	–	–
- customers of a subsidiary	47	48	–	–
	3,504	5,892	161,489	226,868

Notes to The Financial Statements

For the financial year ended 31 December 2018

37. Commitments and contingencies (continued)

(b) Operating lease commitments - where the Group is a lessee

The Group has entered into several non-cancellable operating lease agreements. These leases have varying terms and renewal rights but no purchase options clauses. The future aggregate minimum lease payments under non-cancellable operating leases contracted for at the reporting date but not recognised as liabilities, are analysed as follows:

	The Group	
	2018 US\$'000	2017 US\$'000
Within one year	3,615	2,246
Between one and five years	2,912	2,591
More than five years	16	15
	6,543	4,852

(c) Operating lease commitments - where the Group is a lessor

The Group leases out certain investment properties to an associated company and non-related parties under non-cancellable operating leases. These leases have varying terms and renewal rights but no purchase options clauses. The future aggregate minimum lease receivable under non-cancellable operating leases contracted for as at the reporting date but not recognised as receivables, is analysed as follows:

	The Group	
	2018 US\$'000	2017 US\$'000
Within one year	726	796
Between one and five years	495	1,025
	1,221	1,821

Notes to The Financial Statements

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38. Financial risk management

The Group's activities expose it to a variety of market risks (including currency risk, price risk and interest rate risk), credit risk, liquidity risk and capital risk. The directors of the Company provide guidelines for overall risk management. Management reviews and agrees on policies for managing the various financial risks.

(a) Market risk

(i) Currency risk

Currency risk arises from transactions denominated in currencies other than the respective functional currencies of the entities in the Group.

The Group's businesses conduct the majority of their sale and purchase transactions in the same currency, mainly United States Dollar (US\$). The Group monitors its foreign currency exchange risks closely and maintains funds in various currencies to minimise currency exposure due to timing differences between sales and purchases.

In addition, the Group operates internationally and is exposed to currency translation risk arising from various currency exposures, primarily with respect to the Singapore Dollar (S\$), Korean Won (KRW), Hong Kong Dollar (HK\$), Chinese Renminbi (RMB), New Taiwan Dollar (NT\$), Malaysian Ringgit (MYR), Thailand Baht (THB), Indonesian Rupiah (IDR) and Australian Dollar (AUD). Currency translation risk arises when commercial transactions, recognised assets and liabilities and net investment in foreign operations are denominated in a currency that is not the entity's functional currency.

Notes to The Financial Statements

For the financial year ended 31 December 2018

38. Financial risk management (continued)

- (a) Market risk (continued)
- (i) Currency risk (continued)

The Group's currency exposure is as follows:

	United States Dollar	Singapore Dollar	Korean Won	Hong Kong Dollar	Chinese Renminbi	New Taiwan Dollar	Malaysian Ringgit	Thailand Baht	Indonesian Rupiah	Others	Total
The Group	US\$'000	US\$'000	US\$'000	US\$'000	US\$'000	US\$'000	US\$'000	US\$'000	US\$'000	US\$'000	US\$'000
31 December 2018											
Financial assets:											
Cash and cash equivalents, financial assets, at fair value through profit or loss and at fair value through other comprehensive income	120,918	3,178	2,857	324	3,937	1,700	976	1,112	254	378	135,634
Trade and other receivables	67,647	7,793	12,576	603	57,443	8,947	8,477	14,900	660	2,115	181,161
Other financial assets	13	122	458	311	9	57	51	15	1	12	1,049
	188,578	11,093	15,891	1,238	61,389	10,704	9,504	16,027	915	2,505	317,844
Financial liabilities:											
Borrowings	(159,922)	(18,890)	(7,239)	(5,118)	-	(18,694)	(4,609)	(565)	-	-	(215,037)
Trade and other payables	(127,004)	(6,907)	(465)	(8,486)	(8,071)	(2,893)	(17)	(561)	(271)	(1,946)	(156,621)
	(286,926)	(25,797)	(7,704)	(13,604)	(8,071)	(21,587)	(4,626)	(1,126)	(271)	(1,946)	(371,658)
Net financial (liabilities)/assets	(98,348)	(14,704)	8,187	(12,366)	53,318	(10,883)	4,878	14,901	644	559	(53,814)
Less: Net financial liabilities/ (assets) denominated in the respective entities' functional currencies	110,302	5,057	(5,634)	13,498	(47,261)	10,908	(5,289)	(5,343)	(233)	(93)	75,912
Currency exposure	11,954	(9,647)	2,553	1,132	6,057	25	(411)	9,558	411	466	22,098

Notes to The Financial Statements

For the financial year ended 31 December 2018

38. Financial risk management (continued)

- (a) Market risk (continued)
- (i) Currency risk (continued)

The Group's currency exposure is as follows: (continued)

	United States Dollar US\$'000	Singapore Dollar US\$'000	Korean Won US\$'000	Hong Kong Dollar US\$'000	Chinese Renminbi US\$'000	New Taiwan Dollar US\$'000	Malaysian Ringgit US\$'000	Thailand Baht US\$'000	Indonesian Rupiah US\$'000	Others US\$'000	Total US\$'000
The Group											
31 December 2017											
Financial assets:											
Cash and cash equivalents, financial assets, at fair value through profit or loss and available-for-sale	58,455	5,993	5,045	1,700	4,306	1,160	819	2,092	614	600	80,784
Trade and other receivables	122,262	3,175	8,894	762	63,296	6,457	5,569	9,111	1,971	346	221,843
Other financial assets	77	86	472	274	9	58	97	11	1	3	1,088
	180,794	9,254	14,411	2,736	67,611	7,675	6,485	11,214	2,586	949	303,715
Financial liabilities:											
Borrowings	(189,574)	(20,005)	(7,060)	(5,329)	–	(16,767)	(845)	–	(2)	–	(239,582)
Trade and other payables	(139,652)	(5,726)	(838)	(7,109)	(6,263)	(4,553)	(76)	(610)	(329)	(288)	(165,444)
	(329,226)	(25,731)	(7,898)	(12,438)	(6,263)	(21,320)	(921)	(610)	(331)	(288)	(405,026)
Net financial (liabilities)/assets	(148,432)	(16,477)	6,513	(9,702)	61,348	(13,645)	5,564	10,604	2,255	661	(101,311)
Less: Net financial liabilities/ (assets) denominated in the respective entities' functional currencies	45,549	7,924	(1,798)	9,702	(57,551)	13,764	(6,001)	(11,078)	(2,255)	(2)	(1,746)
Currency exposure	(102,883)	(8,553)	4,715	–	3,797	119	(437)	(474)	–	659	(103,057)

Notes to The Financial Statements

For the financial year ended 31 December 2018

38. Financial risk management (continued)

(a) Market risk (continued)

(i) Currency risk (continued)

The Group's currency exposure is as follows: (continued)

	United States Dollar	Singapore Dollar	Korean Won	Hong Kong Dollar	Chinese Renminbi	New Taiwan Dollar	Malaysian Ringgit	Thailand Baht	Indonesian Rupiah	Australian Dollar	Japanese Yen	Others	Total
	US\$'000	US\$'000	US\$'000	US\$'000	US\$'000	US\$'000	US\$'000	US\$'000	US\$'000	US\$'000	US\$'000	US\$'000	US\$'000
The Group													
1 January 2017													
Financial assets:													
Cash and cash equivalents, financial assets, at fair value through profit or loss and available-for-sale	43,556	8,598	6,011	695	5,594	1,254	3,482	1,505	1,281	559	865	82	73,482
Trade and other receivables	131,943	5,901	7,655	2,536	42,072	2,345	1,852	9,332	1,722	650	36	39	206,083
Other financial assets	954	126	400	201	5	54	77	8	1	12	-	3	1,841
	176,453	14,625	14,066	3,432	47,671	3,653	5,411	10,845	3,004	1,221	901	124	281,406
Financial liabilities:													
Borrowings	(162,870)	(18,932)	(2,062)	(2,289)	-	(13,980)	(3,662)	(626)	(4)	-	-	-	(204,425)
Trade and other payables	(157,187)	(6,307)	(1,104)	(6,288)	(4,175)	(1,991)	(165)	(567)	(164)	(446)	(18)	(95)	(178,507)
	(320,057)	(25,239)	(3,166)	(8,577)	(4,175)	(15,971)	(3,827)	(1,193)	(168)	(446)	(18)	(95)	(382,932)
Net financial (liabilities)/assets	(143,604)	(10,614)	10,900	(5,145)	43,496	(12,318)	1,584	9,652	2,836	775	883	29	(101,526)
Less: Net financial liabilities/ (assets) denominated in the respective entities' functional currencies	60,749	2,868	(5,633)	5,142	(48,538)	12,415	(2,076)	(9,533)	(2,836)	(775)	(31)	-	11,752
Currency exposure	(82,855)	(7,746)	5,267	(3)	(5,042)	97	(492)	119	-	-	852	29	(89,774)

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For the financial year ended 31 December 2018

38. Financial risk management (continued)

(a) Market risk (continued)

(i) Currency risk (continued)

The Company's currency exposure is as follows:

The Company	United States Dollar US\$'000	Singapore Dollar US\$'000	Thailand Baht US\$'000	New Taiwan Dollar US\$'000	Total US\$'000
31 December 2018					
Financial assets:					
Cash and cash equivalents	7,652	371	1	33	8,057
Trade and other receivables	12,145	1,937	4,336	–	18,418
Loans and other receivables	22,656	7,104	5,210	–	34,970
	42,453	9,412	9,547	33	61,445
Financial liabilities:					
Borrowings	–	(6,704)	–	–	(6,704)
Trade and other payables	(9,308)	(16,486)	–	–	(25,794)
	(9,308)	(23,190)	–	–	(32,498)
Net financial assets/(liabilities)	33,145	(13,778)	9,547	33	28,947
Less: Net financial assets denominated in the Company's functional currency	(33,145)	–	–	–	(33,145)
Currency exposure	–	(13,778)	9,547	33	(4,198)

Notes to The Financial Statements

For the financial year ended 31 December 2018

38. Financial risk management (continued)

(a) Market risk (continued)

(i) Currency risk (continued)

The Company's currency exposure is as follows: (continued)

The Company	United States Dollar US\$'000	Singapore Dollar US\$'000	Thailand Baht US\$'000	Hong Kong Dollar US\$'000	New Taiwan Dollar US\$'000	Total US\$'000
31 December 2017						
Financial assets:						
Cash and cash equivalents	8,124	227	–	–	127	8,478
Trade and other receivables	13,313	1,832	558	–	–	15,703
Loans and other receivables	27,256	7,066	6,116	932	–	41,370
Other financial assets	–	8	–	–	–	8
	48,693	9,133	6,674	932	127	65,559
Financial liabilities:						
Borrowings	–	(8,982)	–	–	–	(8,982)
Trade and other payables	(6,826)	(17,489)	–	–	(9)	(24,324)
	(6,826)	(26,471)	–	–	(9)	(33,306)
Net financial assets/(liabilities)	41,867	(17,338)	6,674	932	118	32,253
Less: Net financial assets denominated in the Company's functional currency	(41,867)	–	–	–	–	(41,867)
Currency exposure	–	(17,338)	6,674	932	118	(9,614)
1 January 2017						
Financial assets:						
Cash and cash equivalents	54	679	–	–	126	859
Trade and other receivables	11,173	1,010	210	–	–	12,393
Loans and other receivables	29,333	7,542	7,434	932	–	45,241
Other financial assets	–	8	–	–	–	8
	40,560	9,239	7,644	932	126	58,501
Financial liabilities:						
Borrowings	–	(10,526)	–	–	–	(10,526)
Trade and other payables	(308)	(14,869)	–	–	(29)	(15,206)
	(308)	(25,395)	–	–	(29)	(25,732)
Net financial assets/(liabilities)	40,252	(16,156)	7,644	932	97	32,769
Less: Net financial assets denominated in the Company's functional currency	(40,252)	–	–	–	–	(40,252)
Currency exposure	–	(16,156)	7,644	932	97	(7,483)

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For the financial year ended 31 December 2018

38. Financial risk management (continued)

(a) Market risk (continued)

(i) Currency risk (continued)

If the foreign currencies strengthen/weaken against the United States Dollar by the following percentages:

	The Group		
	31 December 2018	31 December 2017	1 January 2017
Singapore Dollar	5%	5%	5%
Korean Won	5%	5%	5%
Hong Kong Dollar	1%	1%	1%
Chinese Renminbi	5%	5%	5%
New Taiwan Dollar	5%	5%	5%
Malaysian Ringgit	10%	10%	10%
Thailand Baht	10%	10%	10%
Indonesian Rupiah	5%	10%	10%
Australian Dollar	5%	2%	2%
Japanese Yen	—	—	10%

With all other variables including the tax rate being held constant, the effects arising from the net financial asset/(liability) position will be as follows:

	Profit after income tax		Profit after income tax		Profit after income tax	
	Equity	Equity	Equity	Equity	Equity	Equity
	← Increase/(Decrease) →					
	31 December 2018	31 December 2018	31 December 2017	31 December 2017	1 January 2017	1 January 2017
The Group	US\$'000	US\$'000	US\$'000	US\$'000	US\$'000	US\$'000
Singapore Dollar against United States Dollar						
- strengthened	(402)	(253)	(357)	(396)	(324)	(143)
- weakened	402	253	357	396	324	143
Korean Won against United States Dollar						
- strengthened	106	282	197	90	220	282
- weakened	(106)	(282)	(197)	(90)	(220)	(282)
Hong Kong Dollar against United States Dollar						
- strengthened	9	(135)	*	(97)	*	(35)
- weakened	(9)	135	*	97	*	35
Chinese Renminbi against United States Dollar						
- strengthened	252	2,363	159	2,878	(211)	2,427
- weakened	(252)	(2,363)	(159)	(2,878)	211	(2,427)

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For the financial year ended 31 December 2018

38. Financial risk management (continued)

(a) Market risk (continued)

(i) Currency risk (continued)

	Profit after income tax		Profit after income tax		Profit after income tax	
	Equity		Equity		Equity	
	← Increase/(Decrease) →					
The Group	31 December 2018		31 December 2017		1 January 2017	
	US\$'000	US\$'000	US\$'000	US\$'000	US\$'000	US\$'000
New Taiwan Dollar against United States Dollar						
- strengthened	1	(545)	5	(688)	4	(621)
- weakened	(1)	545	(5)	688	(4)	621
Malaysian Ringgit against United States Dollar						
- strengthened	(34)	529	(36)	600	(41)	208
- weakened	34	(529)	36	(600)	41	(208)
Thailand Baht against United States Dollar						
- strengthened	797	534	(40)	1,108	10	953
- weakened	(797)	(534)	40	(1,108)	(10)	(953)
Indonesian Rupiah against United States Dollar						
- strengthened	17	12	–	225	–	284
- weakened	(17)	(12)	–	(225)	–	(284)
Australian Dollar against United States Dollar						
- strengthened	*	*	–	*	–	16
- weakened	*	*	–	*	–	(16)
Japanese Yen against United States Dollar						
- strengthened	–	–	–	–	71	3
- weakened	–	–	–	–	(71)	(3)

Note:

* Not meaningful to disclose as the figures are less than US\$1,000.

Notes to The Financial Statements

For the financial year ended 31 December 2018

38. Financial risk management (continued)

(a) Market risk (continued)

(i) Currency risk (continued)

	Profit after income tax		
	Increase/(Decrease)		
	31 December 2018 US\$'000	31 December 2017 US\$'000	1 January 2017 US\$'000
The Company			
Singapore Dollar against United States Dollar			
- strengthened	(572)	(720)	(670)
- weakened	572	720	670
Thailand Baht against United States Dollar			
- strengthened	792	554	634
- weakened	(792)	(554)	(634)
Hong Kong Dollar against United States Dollar			
- strengthened	–	8	8
- weakened	–	(8)	(8)
New Taiwan Dollar against United States Dollar			
- strengthened	1	5	4
- weakened	(1)	(5)	(4)

(ii) Price risk

The Group is exposed to market risk of its listed equity securities/assets which are classified on the consolidated statement of financial position as financial assets, at fair value through profit or loss and financial assets, available-for-sale. These investments are not hedged.

If prices for equity securities increase/decrease by 10% (2017: 10%; 1 January 2017: 10%), with all other variables including tax rate being held constant, the profit after income tax and equity will increase/decrease by:

	Profit after income tax		
	Increase/(Decrease)		
	31 December 2018 US\$'000	31 December 2017 US\$'000	1 January 2017 US\$'000
The Group			
Financial assets, at fair value through profit or loss			
Listed in:			
Singapore	32	4	4
South Korea	191	–	–
Indonesia	*	*	–

* Amount less than US\$1,000.

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For the financial year ended 31 December 2018

38. Financial risk management (continued)

(a) Market risk (continued)

(ii) Price risk (continued)

	31 December 2018 US\$'000	Equity 31 December 2017 US\$'000	1 January 2017 US\$'000
Financial assets, available-for-sale			
Listed in:			
Singapore	–	109	108
South Korea	–	361	411
	–	470	519

(iii) Cash flow and fair value interest rate risks

Cash flow interest rate risk is the risk that the future cash flows of a financial instrument will fluctuate because of changes in market interest rates. Fair value interest rate risk is the risk that the value of a financial instrument will fluctuate due to changes in market interest rates.

The Group's interest rate risk mainly arises from bank borrowings and various trade and loan financing facilities. These facilities are from reputable banks with favourable interest rates available in the market. The Group has funds that are placed with reputable banks. The interest rates of these funds are at prevailing rates.

For the Group's borrowings at variable rates on which effective hedges have not been entered into, if the interest rates increase/decrease by 1% (2017: 1%) with all other variables including the tax rate being held constant, the profit after income tax will decrease/increase by approximately US\$1,667,000 (2017: US\$1,941,000) as a result of higher/lower interest expense on these borrowings.

Notes to The Financial Statements

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38. Financial risk management (continued)

(a) Market risk (continued)

(iii) Cash flow and fair value interest rate risks (continued)

The tables below set out the Group's and the Company's exposures to interest rate risks. Included in the tables are the assets and liabilities at carrying amounts, categorised by the earlier of contractual repricing or maturity dates.

	Variable rates						Fixed rates				Non-interest bearing	Total		
	Less than 6 months		6 to 12 months		More than 12 months		Less than 6 months		6 to 12 months				More than 12 months	
	US\$'000	US\$'000	US\$'000	US\$'000	US\$'000	US\$'000	US\$'000	US\$'000	US\$'000	US\$'000			US\$'000	US\$'000
The Group														
31 December 2018														
Assets:														
Cash and cash equivalents	-	-	-	-	-	-	5,588	1,167	-	52,425	59,180			
Trade and other receivables	14,858	-	-	-	-	-	5,493	-	-	160,810	181,161			
Financial assets, at fair value through profit or loss	-	-	-	-	-	-	683	-	-	73,776	74,459			
Financial assets, at fair value through other comprehensive income	-	-	-	-	-	-	-	-	-	1,995	1,995			
Other financial assets	-	-	-	-	-	-	-	-	-	1,049	1,049			
Total financial assets	14,858	-	-	-	-	-	11,764	1,167	-	290,055	317,844			
Liabilities:														
Borrowings	181,818	16,926	1,362	1,920	1,920	1,920	9,172	57	312	3,470	215,037			
Trade and other payables	-	-	-	-	-	-	-	-	-	156,621	156,621			
Total financial liabilities	181,818	16,926	1,362	1,920	1,920	1,920	9,172	57	312	160,091	371,658			

Notes to The Financial Statements

For the financial year ended 31 December 2018

38. Financial risk management (continued)

(a) Market risk (continued)

(iii) Cash flow and fair value interest rate risks (continued)

	Variable rates						Fixed rates		Non-interest bearing	Total
	Less than 6 months US\$'000	6 to 12 months US\$'000	1 to 5 years US\$'000	More than 5 years US\$'000	Less than 6 months US\$'000	More than 6 months US\$'000	6 to 12 months US\$'000	1 to 5 years US\$'000		
The Group										
31 December 2017										
Assets:										
Cash and cash equivalents	-	-	-	-	10,991	-	1,778	-	60,311	73,080
Trade and other receivables	10,518	-	-	-	2,471	-	-	-	208,854	221,843
Financial assets, at fair value through profit or loss	-	-	-	-	-	755	-	-	55	810
Financial assets, available-for-sale	-	-	-	-	-	-	-	-	6,894	6,894
Other financial assets	-	-	-	-	-	-	-	-	1,088	1,088
Total financial assets	10,518	-	-	-	14,217	-	1,778	-	277,202	303,715
Liabilities:										
Borrowings	204,039	18,922	8,425	1,854	390	-	2,346	61	3,545	239,582
Trade and other payables	-	-	-	-	-	-	-	-	165,444	165,444
Total financial liabilities	204,039	18,922	8,425	1,854	390	-	2,346	61	168,989	405,026

Notes to The Financial Statements

For the financial year ended 31 December 2018

38. Financial risk management (continued)

(a) Market risk (continued)

(iii) Cash flow and fair value interest rate risks (continued)

	Variable rates					Fixed rates			Non-interest bearing	Total
	Less than 6 months	6 to 12 months	1 to 5 years	More than 5 years	Less than 6 months	6 to 12 months	1 to 5 years			
	US\$'000	US\$'000	US\$'000	US\$'000	US\$'000	US\$'000	US\$'000	US\$'000	US\$'000	US\$'000
The Group										
1 January 2017										
Assets:										
Cash and cash equivalents	-	-	-	-	2,511	1,744	-	60,898	65,153	
Trade and other receivables	-	-	-	-	7,853	-	-	198,230	206,083	
Financial assets, at fair value through profit or loss	-	-	-	-	755	-	-	57	812	
Financial assets, available-for-sale	-	-	-	-	-	-	-	7,517	7,517	
Other financial assets	-	-	820	-	-	-	-	1,021	1,841	
Total financial assets	-	-	820	-	11,119	1,744	-	267,723	281,406	
Liabilities:										
Borrowings	180,666	4,715	12,264	1,969	365	365	799	3,282	204,425	
Trade and other payables	-	-	-	-	-	-	-	178,507	178,507	
Total financial liabilities	180,666	4,715	12,264	1,969	365	365	799	181,789	382,932	

Notes to The Financial Statements

For the financial year ended 31 December 2018

38. Financial risk management (continued)

(a) Market risk (continued)

(iii) Cash flow and fair value interest rate risks (continued)

The Company	Non-interest bearing									
	Variable rates					Fixed rates				
	Less than 6 months US\$'000	6 to 12 months US\$'000	1 to 5 years US\$'000	Less than 6 months US\$'000	6 to 12 months US\$'000	1 to 5 years US\$'000	6 to 12 months US\$'000	1 to 5 years US\$'000	Non-interest bearing US\$'000	Total US\$'000
31 December 2018										
Assets:										
Cash and cash equivalents	-	-	-	5,130	-	-	-	-	2,927	8,057
Trade and other receivables	-	3,193	-	-	9,084	-	-	-	6,141	18,418
Loans and other receivables	-	-	20,944	-	-	7,610	-	-	6,416	34,970
Total financial assets	-	3,193	20,944	5,130	9,084	7,610	15,484	-	-	61,445
Liabilities:										
Borrowings	6,442	-	-	27	27	208	-	-	-	6,704
Trade and other payables	-	9,103	12,028	-	-	-	-	-	4,663	25,794
Total financial liabilities	6,442	9,103	12,028	27	27	208	4,663	-	-	32,498
31 December 2017										
Assets:										
Cash and cash equivalents	-	-	-	7,501	-	-	-	-	977	8,478
Trade and other receivables	-	5,925	-	-	2,500	-	-	-	7,278	15,703
Loans and other receivables	-	-	20,845	-	-	8,570	-	-	11,955	41,370
Other financial assets	-	-	-	-	-	-	-	-	8	8
Total financial assets	-	5,925	20,845	7,501	2,500	8,570	20,218	-	-	65,559
Liabilities:										
Borrowings	1,197	1,197	6,581	1	-	6	-	-	-	8,982
Trade and other payables	-	17,640	-	-	-	-	-	-	6,684	24,324
Total financial liabilities	1,197	18,837	6,581	1	-	6	6,684	-	-	33,306

Notes to The Financial Statements

For the financial year ended 31 December 2018

38. Financial risk management (continued)

(a) Market risk (continued)

(iii) Cash flow and fair value interest rate risks (continued)

	Variable rates					Fixed rates			Non-interest bearing		Total
	Less than 6 months US\$'000	6 to 12 months US\$'000	1 to 5 years US\$'000	Less than 6 months US\$'000	6 to 12 months US\$'000	1 to 5 years US\$'000	6 to 12 months US\$'000	1 to 5 years US\$'000	US\$'000	US\$'000	
The Company											
1 January 2017											
Assets:											
Cash and cash equivalents	-	-	-	1	-	-	-	-	858	859	
Trade and other receivables	-	1,702	-	-	-	-	-	-	10,691	12,393	
Loans and other receivables	-	-	35,383	-	-	-	-	6,918	2,940	45,241	
Other financial assets	-	-	-	-	-	-	-	-	8	8	
Total financial assets	-	1,702	35,383	1	-	-	-	6,918	14,497	58,501	
Liabilities:											
Borrowings	1,108	1,108	8,310	-	-	-	-	-	-	10,526	
Trade and other payables	-	5,283	6,078	-	-	-	-	-	3,845	15,206	
Total financial liabilities	1,108	6,391	14,388	-	-	-	-	-	3,845	25,732	

Notes to The Financial Statements

For the financial year ended 31 December 2018

38. Financial risk management (continued)

(b) Credit risk

Credit risk refers to the risk that a counterparty will default on its contractual obligations resulting in financial loss to the Group.

The Group's and Company's major classes of financial assets are cash and cash equivalents, trade and other receivables, and loans and other receivables.

Concentrations of credit risk with respect to trade receivables are limited due to the Group's large number of customers who are internationally dispersed. Due to these factors, management believes that no additional credit risk beyond the amount of allowance for impairment made is inherent in the Group's trade receivables. As at the reporting date, the Group's trade receivables comprised six debtors (2017: five debtors) that individually represented 2.2% to 8.9% (2017: 2.2% to 3.8%) of the Group's total trade receivables.

Credit exposure to an individual counterparty is restricted by credit limits that are approved by the management based on ongoing credit evaluation. The counterparty's payment profile and credit exposure are continuously monitored at the entity level by the respective heads of operations, and finance departments and at the Group level by the corporate finance and management team.

The maximum exposure to credit risk for each class of financial instruments is the carrying amount of that class of financial instruments presented on the statement of financial position, except as disclosed in Note 37(a) and as follows:

- (i) The Group does not hold any collateral or other credit enhancements to cover its credit risks associated with its financial assets, except that the credit risk associated with trade receivables amounted to US\$1,308,000 (2017: US\$6,613,000; 1 January 2017: US\$14,300,000) are mitigated because these are secured by:
 - properties with fair value estimated to be approximately US\$881,100 (2017: US\$1,049,000; 1 January 2017: US\$1,656,000); and/or
 - marketable securities with fair value exceeding the carrying amount of the trade receivables as at 31 December 2017 and 1 January 2017.

The Group is not permitted to sell or repledge the collaterals in the absence of default.

- (ii) The Group purchased credit insurance to reduce credit risk from extension of credit to the majority of its customers in the electronic components distribution business.

Notes to The Financial Statements

For the financial year ended 31 December 2018

38. Financial risk management (continued)

(b) Credit risk (continued)

The credit risk for trade receivables is as follows:

	The Group		
	31 December 2018 US\$'000	31 December 2017 US\$'000	1 January 2017 US\$'000
By geographical areas:			
South Asia	37,569	44,298	45,141
Hong Kong	44,449	82,059	96,257
China	57,115	58,760	40,770
South Korea	11,918	9,213	7,208
Taiwan	14,483	12,459	6,752
Others	–	–	881
	165,534	206,789	197,009

Credit risk grading guideline

The internal credit risk grading which are used to report the Group's credit risk exposure to key management personnel for credit risk management purposes are as follows:

Internal rating grades	Definition	Basis of recognition of expected credit loss
(i) Performing	The counterparty has a low risk of default and does not have any past-due amounts	12-month ECL
(ii) Under-performing	There has been a significant increase in credit risk since initial recognition	Lifetime ECL (not credit impaired)
(iii) Non-performing	There is evidence indicating that the asset is credit impaired	Lifetime ECL (credit impaired)
(iv) Write-off	There is evidence indicating that there is no reasonable expectation of recovery as the debtor is in severe financial difficulty	Asset is written off

Except as disclosed in the financial statements, the Group has no under-performing, non-performing financial assets. The credit quality of the Group's financial assets, as well as maximum exposure to credit risk rating rates are presented as follows:

Notes to The Financial Statements

For the financial year ended 31 December 2018

38. Financial risk management (continued)

(b) Credit risk (continued)

Cash and cash equivalents

Impairment on cash and cash equivalents has been measured on the 12-month expected loss basis and reflects the short maturities of the exposures. The Group considers that its cash and cash equivalents have low credit risk based on the external credit ratings of the counterparties. Cash and cash equivalents are entered into with bank and financial institution counterparties, assessed as low credit risks and rated BBB+ to A1, based on rating agency's ratings. The amount of the allowance on cash and cash equivalents was immaterial. The gross and net carrying amount of cash and cash equivalents are set out in Note 11 to the financial statements.

Trade receivables

For trade receivables, the Group adopts the policy of dealing with customers of good financial standing and good credit ratings based on in-house credit assessments performed in accordance to corporate credit policies and procedures and if available, professional credit reports and obtaining sufficient security where appropriate to mitigate credit risk. For other financial assets, the Group adopts the policy of dealing only with good credit quality counterparties.

The Group applies the SFRS(I) 9 simplified approach to measure expected credit losses which uses a lifetime expected loss allowance for trade receivables carried at amortised cost. The expected loss rates are based on the payment profiles of sales over a period of 36 months before 31 December 2018 or 1 January 2018 respectively and the corresponding historical credit losses experienced within this period. The historical loss rates are adjusted to reflect current and forward-looking information on macroeconomic factors affecting the ability of the customers to settle the receivables. The Group has identified the unemployment rate of the countries in which it sells its goods and services to be the most relevant factors, and accordingly adjusts the historical loss rates based on expected changes in this factor.

On that basis, the loss allowance as at 31 December 2018 was determined as follows for trade receivables carried at amortised cost:

	Lifetime expected loss rate %	Gross carrying amount US\$'000	Lifetime expected credit losses US\$'000	Net carrying amount US\$'000
The Group				
31 December 2018				
Individual assessment	100%	11,131	(11,131)	–
Collective assessment				
Current	0.1%	117,678	(130)	117,548
Past due:				
1 to 30 days	0.2%	27,040	(53)	26,987
31 to 60 days	1.1%	11,365	(130)	11,235
Over 61 days	4.2%	10,191	(427)	9,764
		177,405	(11,871)	165,534

Trade receivables are written off when there is no reasonable expectation of recovery. Indicators that there is no reasonable expectation of recovery include, amongst others, the failure of a debtor to engage in a repayment plan with the Group, and a failure to make contractual payments.

Notes to The Financial Statements

For the financial year ended 31 December 2018

38. Financial risk management (continued)

(b) Credit risk (continued)

Trade receivables (continued)

Impairment losses on trade receivables are presented as net impairment losses within operating profit. Subsequent recovery of amounts previously written off is credited against the same line item.

	The Group	
	2018 US\$'000	2017 US\$'000
Beginning of financial year	11,575	4,837
Loss allowance made prior to set off of accrual of credit insurance claim *	1,450	6,825
Impairment written off	(1,224)	(227)
Currency translation differences	70	140
End of financial year (Note 12)	11,871	11,575

* Loss allowances recorded in the Consolidated Income Statement of US\$4,125,000 (Note 6) are netted off with an accrual of credit insurance claim amounting to US\$2,700,000 for financial year ended 31 December 2017 for a customer of the Group's Hong Kong subsidiary.

Other receivables

For other receivables (including amount due from joint venture and associated companies), the Group categorised them as performing debts where the counterparties have a low risk of default and does not have any past-due amounts. The loss allowance is measured at an amount equal to 12-month expected credit loss which reflects the low credit risk of the exposures. The gross and net carrying amount of other receivables are set out in Note 12 to the financial statements.

The movement in the allowance for impairment of other receivables is as follows:

	The Group	
	2018 US\$'000	2017 US\$'000
Beginning of financial year	379	379
Loss allowance made (Note 6)	515	–
Impairment written off	(253)	–
End of financial year (Note 12)	641	379

Previous accounting policy for impairment of trade and other receivables under SFRS 39

Financial assets that are neither past due nor impaired

Cash and cash equivalents that are neither past due nor impaired are mainly cash with banks with high credit ratings assigned by international credit rating agencies. Trade and other receivables that are neither past due nor impaired are substantially companies with a good collection track record with the Group.

Notes to The Financial Statements

For the financial year ended 31 December 2018

38. Financial risk management (continued)

(b) Credit risk (continued)

Previous accounting policy for impairment of trade and other receivables under SFRS 39 (continued)

Financial assets that are past due and/or impaired

There is no major class of financial assets that is past due and/or impaired except for trade and other receivables. The table below is an analysis of trade and other receivables as at the reporting date:

	The Group	
	31 December 2017 US\$'000	1 January 2017 US\$'000
Not past due and not impaired	159,121	164,017
Past due but not impaired [#]	62,722	42,066
	<u>221,843</u>	<u>206,083</u>
Impaired trade receivables - collectively assessed	385	471
Less: Allowance for impairment	(385)	(471)
	<u>-</u>	<u>-</u>
Impaired trade receivables - individually assessed	11,190	4,366
Less: Allowance for impairment	(11,190)	(4,366)
	<u>-</u>	<u>-</u>
Impaired other receivables - individually assessed	379	379
Less: Allowance for impairment	(379)	(379)
	<u>-</u>	<u>-</u>
Trade and other receivables, net	<u>221,843</u>	<u>206,083</u>

[#] Aging of trade receivables that are past due but not impaired is as follows:

	The Group	
	31 December 2017 US\$'000	1 January 2017 US\$'000
Past due:		
Not more than three months	56,855	33,122
Three to six months	5,414	4,964
Over six months	453	3,980
	<u>62,722</u>	<u>42,066</u>

Notes to The Financial Statements

For the financial year ended 31 December 2018

38. Financial risk management (continued)

(c) Liquidity risk

The table below analyses the maturity profile of the Group's and Company's financial liabilities based on contractual undiscounted cash flows.

The Group	Cash flow				
	Carrying amount ⁽¹⁾	Contractual cash flow	Less than 1 year	1 to 5 years	More than 5 years
	US\$'000	US\$'000	US\$'000	US\$'000	US\$'000
31 December 2018					
Trade and other payables	156,621	156,621	156,621	–	–
Borrowings	215,037	224,964	215,686	7,616	1,662
Financial guarantee contracts	3,504	3,504	3,504	–	–
	375,162	385,089	375,811	7,616	1,662
31 December 2017					
Trade and other payables	165,444	165,444	165,444	–	–
Borrowings	239,582	246,528	235,708	8,665	2,155
Financial guarantee contracts	5,892	5,892	5,892	–	–
	410,918	417,864	407,044	8,665	2,155
1 January 2017					
Trade and other payables	178,507	178,507	178,507	–	–
Borrowings	204,425	210,211	194,449	13,076	2,686
Financial guarantee contracts	13,044	13,044	13,044	–	–
	395,976	401,762	386,000	13,076	2,686

The Company	Cash flow			
	Carrying amount ⁽¹⁾	Contractual cash flow	Less than 1 year	1 to 5 years
	US\$'000	US\$'000	US\$'000	US\$'000
31 December 2018				
Trade and other payables	25,794	28,295	14,918	13,377
Borrowings	6,704	6,966	6,730	236
Financial guarantee contracts	161,489	161,489	161,489	–
	193,987	196,750	183,137	13,613
31 December 2017				
Trade and other payables	24,324	24,843	21,851	2,992
Borrowings	8,982	9,275	2,616	6,659
Financial guarantee contracts	226,868	226,868	226,868	–
	260,174	260,986	251,335	9,651
1 January 2017				
Trade and other payables	15,206	16,327	9,356	6,971
Borrowings	10,526	10,962	2,432	8,530
Financial guarantee contracts	198,121	198,121	198,121	–
	223,853	225,410	209,909	15,501

(1) Includes financial guarantee commitments

Notes to The Financial Statements

For the financial year ended 31 December 2018

38. Financial risk management (continued)

(c) Liquidity risk (continued)

Liquidity risk is managed while maintaining sufficient cash and the availability of funding through an adequate amount of credit facilities.

As at the reporting date, the Group had at its disposal cash and cash equivalents amounting to US\$58,254,000 (2017: US\$72,157,000).

The amount included for financial guarantee contracts is the maximum amount the Group and the Company could be forced to settle under the arrangement for the full guaranteed amount if that amount is claimed by the counterparties to the guarantees. Based on expectations as at the reporting date, the Group and the Company consider that it is unlikely that such an amount will be payable under the arrangement. However, this estimate is subjected to change depending on the probability of the counterparties claiming under the guarantees which is a function of the likelihood that the financial receivables held by the counterparties which are guaranteed suffer credit losses.

(d) Capital risk

The Group's objectives when managing capital are to safeguard the Group's ability to continue as a going concern and to maintain an optimal capital structure so as to maximise shareholders' value. In order to maintain or achieve an optimal capital structure, the Group may adjust the amount of dividend payment, return capital to shareholders, issue new shares, obtain new borrowings or sell assets to reduce borrowings.

Management monitors capital based on a net gearing ratio. Management's strategy, which was unchanged from the financial year ended 31 December 2017, is to maintain a net gearing ratio not exceeding 150% for the Group and the Company.

The net gearing ratio calculated as net debts divided by total equity is as follows:

	The Group			The Company		
	31 December 2018 US\$'000	31 December 2017 US\$'000	1 January 2017 US\$'000	31 December 2018 US\$'000	31 December 2017 US\$'000	1 January 2017 US\$'000
Total borrowings	215,037	239,582	204,425	6,704	8,982	10,526
Less: Cash and cash equivalents	(59,180)	(73,080)	(65,153)	(8,057)	(8,478)	(859)
Net debts/(cash)	155,857	166,502	139,272	(1,353)	504	9,667
Total equity	144,461	145,015	124,787	99,578	107,376	103,790
Net gearing ratio	107.9%	114.8%	111.6%	NA	0.5%	9.3%

As disclosed in Note 34(a), certain overseas subsidiaries of the Group are required to contribute to and maintain a non-distributable reserve fund whose utilisation is subject to approval by the relevant authorities. The Group are in compliance with all externally imposed capital requirements for the financial year ended 31 December 2018 and 31 December 2017, except as disclosed in Note 27(e).

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For the financial year ended 31 December 2018

39. Fair value of assets and liabilities

(a) Fair value hierarchy

The Group categorises fair value measurements using a fair value hierarchy that is dependent on the valuation inputs used as follows:

- (i) quoted prices (unadjusted) in active markets for identical assets or liabilities that the Group can access at the measurement date (Level 1);
- (ii) inputs other than quoted prices included within Level 1 that are observable for the asset or liability, either directly (i.e. as prices) or indirectly (i.e. derived from prices) (Level 2); and
- (iii) inputs for the asset or liability that are not based on observable market data (unobservable inputs) (Level 3).

Fair value measurements that use inputs of different hierarchy levels are categorised in its entirety in the same level of the fair value hierarchy as the lowest level input that is significant to the entire measurement.

(b) Assets and liabilities measured at fair value

The following table presents the assets and liabilities measured at fair value as at the reporting date:

	Quoted prices in active markets for identical instruments Level 1 US\$'000	Significant observable inputs other than quoted prices Level 2 US\$'000	Significant unobservable inputs Level 3 US\$'000	Total US\$'000
The Group				
31 December 2018				
Recurring fair value measurements				
Assets				
Financial assets				
Financial assets, at fair value through profit or loss:				
Quoted securities	2,937	–	–	2,937
Convertible note	–	683	–	683
Other investment - land investment in Cambodia	–	–	615	615
Trade receivables	–	–	70,224	70,224
Financial assets, at fair value through other comprehensive income				
Unlisted securities	–	–	1,995	1,995
Total financial assets	2,937	683	72,834	76,454
Non-financial assets				
Investment properties				
Freehold building	–	4,402	–	4,402
Total non-financial assets	–	4,402	–	4,402
Liabilities				
Derivative financial instruments				
Foreign exchange forward contracts	–	(1,165)	–	(1,165)
Total financial liabilities	–	(1,165)	–	(1,165)

Notes to The Financial Statements

For the financial year ended 31 December 2018

39. Fair value of assets and liabilities (continued)

(b) Assets and liabilities measured at fair value (continued)

	Quoted prices in active markets for identical instruments Level 1 US\$'000	Significant observable inputs other than quoted prices Level 2 US\$'000	Significant unobservable inputs Level 3 US\$'000	Total US\$'000
The Group				
31 December 2017				
Recurring fair value measurements				
Assets				
Financial assets				
Financial assets, at fair value through profit or loss:				
Quoted securities	55	–	–	55
Convertible note	–	755	–	755
Financial assets, available-for-sale				
Quoted securities	5,943	–	–	5,943
Total financial assets	5,998	755	–	6,753
Non-financial assets				
Investment properties				
Freehold building	–	4,534	–	4,534
Total non-financial assets	–	4,534	–	4,534
Liabilities				
Derivative financial instruments				
Foreign exchange forward contracts	–	(470)	–	(470)
Total financial liabilities	–	(470)	–	(470)

Notes to The Financial Statements

For the financial year ended 31 December 2018

39. Fair value of assets and liabilities (continued)

(b) Assets and liabilities measured at fair value (continued)

	Quoted prices in active markets for identical instruments Level 1 US\$'000	Significant observable inputs other than quoted prices Level 2 US\$'000	Significant unobservable inputs Level 3 US\$'000	Total US\$'000
The Group				
1 January 2017				
Recurring fair value measurements				
Assets				
Financial assets				
Financial assets, at fair value through profit or loss:				
Quoted securities	57	–	–	57
Convertible note	–	755	–	755
Financial assets, available-for-sale				
Quoted securities	6,562	–	–	6,562
Total financial assets	6,619	755	–	7,374
Non-financial assets				
Investment properties				
Leasehold building	–	1,078	–	1,078
Freehold building	–	4,189	–	4,189
Total non-financial assets	–	5,267	–	5,267
Liabilities				
Derivative financial instruments				
Foreign exchange forward contracts	–	(166)	–	(166)
Contingent consideration payable	–	–	(672)	(672)
Total financial liabilities	–	(166)	(672)	(838)

(c) Level 1 fair value measurements

The fair values of quoted securities traded in active markets are based on quoted market prices as at the reporting date. The quoted market prices used for the quoted securities held by the Group are the closing prices as at the reporting date. These financial assets are included in Level 1.

(d) Level 2 fair value measurements

The following is a description of the valuation techniques and inputs used in the fair value measurement for assets and liabilities that are categorised within Level 2 of the fair value hierarchy:

(i) Convertible note

The fair value of convertible note that is not traded in an active market is determined by using a valuation technique. The Group uses estimated discounted cash flows technique and makes assumptions that are based on market conditions existing as at the reporting date. The model incorporates various inputs including current and expected future credit losses, and market rates of interest.

Notes to The Financial Statements

For the financial year ended 31 December 2018

39. Fair value of assets and liabilities (continued)

(d) Level 2 fair value measurements (continued)

(ii) Freehold and leasehold building

The valuation of investment properties is based on comparable market transactions that consider sales of similar properties that have been transacted in the open market.

(iii) Foreign exchange forward contracts

The fair values of foreign exchange forward contracts with short term maturities and that are not traded in an active market are determined using forward market exchange rates as at the reporting date.

(e) Level 3 fair value measurements

(i) Information about significant unobservable inputs used in Level 3 fair value measurements

Trade receivables

The fair value of these financial assets represented the expected net proceeds to be received from the banks by selling these assets and was measured at fair value hierarchy level 3 as at 31 December 2018. The valuation technique is income approach and the most significant unobservable input would be the expected factoring charges for the factoring arrangements. The higher the factoring charges, the lower the fair values of these financial assets.

Other investment - land development in Cambodia and unlisted securities

As at 31 December 2018, for the investment in Cambodia land and unlisted securities, the Group estimates that the cost represents the fair value based on recent available information and transaction prices.

Contingent consideration payable

The determination of fair value of the contingent consideration was based on the share of forecasted net profits of the subsidiary. During the financial year ended 31 December 2017, the Group reversed the contingent consideration as the subsidiary did not meet its guaranteed net profits.

There was no transfer between Level 1, Level 2 and Level 3 during the financial year ended 31 December 2018, 31 December 2017 and 1 January 2017.

Notes to The Financial Statements

For the financial year ended 31 December 2018

39. Fair value of assets and liabilities (continued)

(e) Level 3 fair value measurements (continued)

(ii) Movements in Level 3 assets and liabilities measured at fair value

The following table presents the changes in Level 3 instruments:

The Group	Financial assets, at fair value through profit or loss US\$'000	Financial assets, at fair value through other comprehensive income US\$'000	Contingent consideration payable US\$'000
31 December 2018			
Beginning of financial year	–	–	–
Reclassified from amortised cost	70,839	–	–
Investments reclassified from available-for-sale	–	1,995	–
End of financial year	70,839	1,995	–
31 December 2017			
Beginning of financial year	–	–	672
Reversal	–	–	(672)
End of financial year	–	–	–

(iii) Valuation policies and procedures

The Chief Financial Officer (“CFO”) oversees the financial reporting valuation process and is responsible for setting and documenting the valuation policies and procedures, including the measurement of Level 3 fair values.

The CFO’s office regularly reviews significant unobservable inputs and valuation adjustments. If third party information is used to measure fair value, the team assesses and documents the evidence obtained from third parties to support the conclusion that such valuations meet the requirements of SFRS(I), including the level in the fair value hierarchy the resulting fair value estimate should be classified. The CFO reports to the Audit Committee for significant valuation issues.

Notes to The Financial Statements

For the financial year ended 31 December 2018

39. Fair value of assets and liabilities (continued)

(f) Assets and liabilities not carried at fair value but for which fair value is disclosed

	Quoted prices in active markets for identical instruments Level 1 US\$'000	Significant observable inputs other than quoted prices Level 2 US\$'000	Significant unobservable inputs Level 3 US\$'000	Total US\$'000	Carrying amount US\$'000
The Group					
31 December 2018					
Assets					
Investments in associated companies	8,555	–	–	8,555	3,544
Financial liabilities					
Borrowings (non-current)					
Bank borrowings	–	–	3,237	3,237	3,282
Finance lease liabilities	–	–	306	306	312
	–	–	3,543	3,543	3,594
31 December 2017					
Assets					
Investment in an associated company	2,141	–	–	2,141	883
Financial liabilities					
Borrowings (non-current)					
Bank borrowings	–	–	9,896	9,896	10,278
Finance lease liabilities	–	–	51	51	62
	–	–	9,947	9,947	10,340
1 January 2017					
Assets					
Investment in an associated company	1,882	–	–	1,882	1,931
Financial liabilities					
Borrowings (non-current)					
Bank borrowings	–	–	14,553	14,553	15,007
Finance lease liabilities	–	–	19	19	25
	–	–	14,572	14,572	15,032

Notes to The Financial Statements

For the financial year ended 31 December 2018

39. Fair value of assets and liabilities (continued)

(f) Assets and liabilities not carried at fair value but for which fair value is disclosed (continued)

	Quoted prices in active markets for identical instruments Level 1 US\$'000	Significant observable inputs other than quoted prices Level 2 US\$'000	Significant unobservable inputs Level 3 US\$'000	Total US\$'000	Carrying amount US\$'000
The Company					
31 December 2018					
Assets					
Investment in an associated company	1,390	–	–	1,390	1,390
Financial liabilities					
Borrowings (non-current)					
Finance lease liabilities	–	–	199	199	208
31 December 2017					
Assets					
Investment in an associated company	1,936	–	–	1,936	1,936
Financial liabilities					
Borrowings (non-current)					
Bank borrowings	–	–	6,296	6,296	6,581
Finance lease liabilities	–	–	5	5	6
	–	–	6,301	6,301	6,587
1 January 2017					
Assets					
Investment in an associated company	1,702	–	–	1,702	4,872
Financial liabilities					
Borrowings (non-current)					
Bank borrowings	–	–	8,025	8,025	8,310

- (i) The fair values of bank borrowings and finance lease liabilities are estimated using discounted expected future cash flows at market incremental lending rate for similar type borrowings or leasing arrangements at the reporting date.
- (ii) The carrying amounts of other financial assets and liabilities recognised as at 31 December 2018, 31 December 2017 and 1 January 2017, with maturity of less than one year approximate their fair values due to their short term maturities.
- (iii) The carrying amounts of the non-current loans to subsidiaries and an associated company and amount due to a subsidiary as at the respective reporting dates, which bear interest at prevailing market interest rates (Level 2), are approximation of fair values.
- (iv) The interest-free non-current loans to subsidiaries and amount due to a subsidiary are adjusted to their fair values on initial recognition, calculated as the present value of estimated cash flows discounted by the market interest rates that apply to the corresponding financial assets and liabilities (Level 2). Their carrying amounts as at the respective reporting dates include amortisation of imputed interests on initial recognition and are approximation of fair values.

Notes to The Financial Statements

For the financial year ended 31 December 2018

39. Fair value of assets and liabilities (continued)

- (g) 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:

	Carrying amount		Fair value	
	31 December 2017 US\$'000	1 January 2017 US\$'000	31 December 2017 US\$'000	1 January 2017 US\$'000
The Group				
Financial assets, available-for-sale	951	955	*	*

* Fair value information was not disclosed for the Group's financial assets, available-for-sale that were carried at cost because fair value of these equity securities cannot be measured reliably. These equity securities were not quoted on any market and there were also no recent observable arm's length transactions in these shares.

40. Related party transactions

A related party is a person or entity who is related to the entity that is preparing its financial statements ("reporting entity").

Parties are considered to be related if (a) a person or a close member of that person's family is related to a reporting entity, if that person (i) has control or joint control over the reporting entity; (ii) has significant influence over the reporting entity; or (iii) is a member of the key management personnel of the reporting entity or of a parent of the reporting entity and (b) an entity is related to a reporting entity if (i) the entity and the reporting entity are members of the same group; (ii) one entity is an associate or joint venture of the other entity; (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 reporting entity or an entity related to the reporting entity; (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; and (viii) the entity or any member of a group of which is a part, provides key management personnel services to the reporting entity or to the parent of the reporting entity.

- (a) Sales and purchases of goods and services

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

	The Group	
	2018 US\$'000	2017 US\$'000
With associated companies:		
Sales of goods to associated companies	3	65
Purchases of goods from associated companies	5	2
Interest received from an associated company	–	34
Rental received from an associated company	70	106
With key management personnel:		
Fees paid to a firm of which a director of the Company is a member, director or shareholder	61	40

Sales and purchases of goods and services were carried out on commercial terms and conditions as agreed between the parties. Outstanding balances as at the reporting date arising from sales/purchases of goods and services, are set out in Note 12 and Note 26 respectively.

Notes to The Financial Statements

For the financial year ended 31 December 2018

40. Related party transactions (continued)

- (b) Share options granted/exercised by directors of the Company

There were no share options granted to or exercised by directors of the Company during the financial year ended 31 December 2018 and 31 December 2017. There were no outstanding share options granted to the directors of the Company at 31 December 2018 and 31 December 2017.

- (c) Key management personnel compensation

Key management personnel compensation is analysed as follows:

	The Group	
	2018 US\$'000	2017 US\$'000
Salaries and other short-term employees' benefits	3,881	3,494
Post employment benefits contribution to defined contribution plans	55	73
Other long term benefits	588	586
	4,524	4,153

Included in the above are remuneration (including salaries, bonuses, directors' fees and other emoluments paid/payable to Directors of the Company). Fees payable to Directors of the Company amounted to US\$207,000 (2017: US\$172,000).

The banding of Directors' remuneration is disclosed in Note 1 of the Additional Requirements of Singapore Exchange Securities Trading Limited's Listing Manual.

41. Segment information

- (a) Operating segments

Management has determined the operating segments based on the reports reviewed to make strategic decisions. Management considers the business from both a geographic and business segment perspective. The Group has three reportable segments, as described below, which are the Group's strategic business units based on different products ranges targeting at different market channels.

- Electronic components distribution
- Consumer products distribution
- Other businesses

Other businesses include investment holding and trading, rental of investment properties, hospitality and healthcare solutions, assembly and distribution of medical devices and ethylene oxide sterilization, provision of laundry services in the hospitality industry, project financing, food manufacturer and caterer, distribution and trading of mobile phone's subscriber identity module (SIM) cards and top up cards and manufacturing, processing, trading and exporting of durian puree and durian related products.

Notes to The Financial Statements

For the financial year ended 31 December 2018

41. Segment information (continued)

(a) Operating segments (continued)

The operating segments are formed by aggregating across the results of the Group's entities whose principal activities fall within the same operating segment as listed above. Management monitors the operating results of its business units separately for the purpose of making decisions about resource allocation and performance assessment. Performance is measured based on sales, gross profit and profit after tax, as included in the internal management reports that are reviewed by the Group's CEO and CFO on a monthly basis. These criteria are used to measure performance as management believes that such information are the most relevant in evaluating the results of each entity within the same operating segment. Inter-segment transactions are determined on an arm's length basis.

Segment assets comprise primarily cash and cash equivalents, trade and other receivables, inventories, financial assets, at fair value through profit or loss, other current assets, loans to associated companies and subsidiaries, financial assets, at fair value through other comprehensive income, financial assets, available-for-sale, investments in associated companies, investment in joint venture, property, plant and equipment, investment properties, intangible assets and other assets. Segment assets exclude deferred income tax assets.

Segment liabilities comprise primarily trade and other payables, defined benefit plans liabilities and borrowings. Segment liabilities exclude items such as current income tax liabilities and deferred income tax liabilities.

Capital expenditure comprises additions to property, plant and equipment, investment properties and intangible assets such as computer software license costs and distribution rights.

The investments in associated companies and joint venture, as disclosed in Note 19(a) and Note 20(a), are accounted for by the equity method. The investments and the share of results of Bull Will Co., Ltd, Globaltronics International Pte. Ltd. and Unitrontech China Co., Ltd are shown separately in conjunction with data for the electronic components distribution business. The investment and the share of results of PT Sentral Mitra Informatika is shown separately in conjunction with data for the consumer products distribution business. The investments and the share of results of SPL Holdings (Australia) Pty Ltd, Tong Chiang Group Pte. Ltd., Edith-United International Pte Ltd, Eunice Food Catering Pte. Ltd., Imperial Kitchen Catering Pte. Ltd. and Musang Durians Frozen Food (M) Sdn. Bhd. are shown separately in conjunction with data for other businesses.

Notes to The Financial Statements

For the financial year ended 31 December 2018

41. Segment information (continued)

(a) Operating segments (continued)

The Group	Electronic components distribution US\$'000	Consumer products distribution US\$'000	Other businesses US\$'000	Inter-segment eliminations US\$'000	Total US\$'000
2018					
Sales – external	1,472,291	54,982	5,727	(5,893)	1,527,107
Segment results - operating profit/(loss)	30,422	(6,232)	12,905	–	37,095
Finance income	2,503	602	2,127	(2,968)	2,264
Finance costs	(13,919)	(788)	(2,579)	2,968	(14,318)
Share of results of associated companies (after income tax)	(272)	14	(77)	–	(335)
Share of loss of joint venture (after income tax)	–	–	(543)	–	(543)
Profit before income tax					24,163
Income tax expense					(5,706)
Profit after income tax					18,457
Segment assets	487,582	34,162	50,818	(57,520)	515,042
Investments in associated companies	914	2,828	–	–	3,742
Investment in joint venture	–	–	1,815	–	1,815
Deferred income tax assets					481
Consolidated total assets					521,080
Segment liabilities	161,603	10,169	43,232	(57,520)	157,484
Borrowings	179,549	23,361	12,127	–	215,037
Current and deferred income tax liabilities					4,098
Consolidated total liabilities					376,619
Capital expenditure on property, plant and equipment	1,474	360	51	–	1,885
Capital expenditure on intangible assets (computer software license costs)	265	–	–	–	265
Investment in financial assets, at fair value through profit or loss	–	–	1,777	–	1,777
Gain on disposal of an associated company	–	–	(18,258)	–	(18,258)
Impairment loss on investment in associated companies	–	–	5,437	–	5,437
Depreciation of property, plant and equipment	1,877	465	588	–	2,930
Amortisation of computer software license costs	247	18	1	–	266
Amortisation of distribution rights	14	–	–	–	14
Fair value gain on convertible bond	–	–	(941)	–	(941)
Fair value loss on financial assets, at fair value through profit or loss	2,554	–	6	–	2,560
Impairment losses on goodwill arising from acquisition of subsidiaries	–	4,526	–	–	4,526
Loss allowance/(write-back) of loss allowance on trade receivables	1,484	(93)	59	–	1,450
Loss allowance on non-trade receivables (third parties)	–	–	515	–	515

Notes to The Financial Statements

For the financial year ended 31 December 2018

41. Segment information (continued)

(a) Operating segments (continued)

The Group	Electronic components distribution US\$'000	Consumer products distribution US\$'000	Other businesses US\$'000	Inter-segment eliminations US\$'000	Total US\$'000
2017					
Sales - external	1,455,486	55,671	4,956	(23,909)	1,492,204
Segment results - operating profit/(loss)	29,495	(3,168)	(1,457)	–	24,870
Finance income	2,039	369	1,481	(2,318)	1,571
Finance costs	(9,729)	(638)	(2,241)	2,318	(10,290)
Share of results of associated companies (after income tax)	(658)	–	212	–	(446)
Share of loss of joint venture (after income tax)	–	–	(34)	–	(34)
Profit before income tax					15,671
Income tax expense					(4,125)
Profit after income tax					11,546
Segment assets	519,744	41,837	48,457	(77,402)	532,636
Investments in associated companies	1,214	–	17,161	–	18,375
Investment in joint venture	–	–	2,436	–	2,436
Deferred income tax assets					841
Consolidated total assets					554,288
Segment liabilities	174,366	14,609	54,702	(77,402)	166,275
Borrowings	206,354	16,012	17,216	–	239,582
Current and deferred income tax liabilities					3,416
Consolidated total liabilities					409,273
Capital expenditure on property, plant and equipment	1,045	39	31	–	1,115
Capital expenditure on intangible assets (computer software license costs)	100	2	–	–	102
Investment in a joint venture	–	–	2,344	–	2,344
Depreciation of property, plant and equipment	1,882	190	383	–	2,455
Amortisation of computer software license costs	309	28	1	–	338
Amortisation of distribution rights	14	–	–	–	14
Fair value loss on investment properties	–	–	9	–	9
Impairment loss on financial assets, available-for-sale	27	–	1,417	–	1,444
Impairment losses on goodwill arising from acquisition of subsidiaries	–	900	–	–	900
Loss allowance on trade receivables	3,410	668	47	–	4,125

Notes to The Financial Statements

For the financial year ended 31 December 2018

41. Segment information (continued)

(b) Geographical segments

The geographical segments comprised five broad primary geographic areas, namely: South Asia [consisting of Singapore (the home and principal operating country of the Group), Malaysia, Thailand, Philippines, Indonesia, Vietnam, Cambodia and India], Hong Kong, China, South Korea and Taiwan which reflects the current business process and monitoring in these primary geographic business segments in which the Group operates in.

All geographic locations are engaged in the electronic components distribution business except for Cambodia.

Consumer products distribution in South Asia consists mainly Singapore, Malaysia, Indonesia and Cambodia. Australia and United Arab Emirates are included in "others" geographical segment.

Other businesses in South Asia (mainly Singapore, Malaysia, Thailand, Indonesia and Cambodia), Taiwan, China and Australia include investment holding and trading, rental of investment properties, hospitality and healthcare solutions, assembly and distribution of medical devices and ethylene oxide sterilization, provision of laundry services in the hospitality industry, project financing, food manufacturer and caterer and distribution and trading of mobile phone's subscriber identity module (SIM) cards and top up cards and manufacturing, processing, trading and exporting of durian puree and durian related products.

Sales are based on the geographical area in which the entities are located. Non-current assets are shown by the geographical area where the assets are located.

	Sales		Non-current assets*	
	2018 US\$'000	2017 US\$'000	2018 US\$'000	2017 US\$'000
The Group				
South Asia	311,570	324,270	16,665	22,573
Hong Kong	891,527	893,254	3,368	1,745
China	164,955	154,180	17,014	18,375
South Korea	65,399	52,918	6,173	6,488
Taiwan	93,656	65,551	7,800	7,960
Singapore - Associated company	–	–	–	5,688
Indonesia - Associated company	–	–	2,828	–
Taiwan - Associated company	–	–	716	883
Australia - Associated company	–	–	–	11,474
Hong Kong - Associated company	–	–	198	330
Malaysia - Joint venture	–	–	1,815	2,436
Others	–	2,031	–	3
	1,527,107	1,492,204	56,577	77,955

* Non-current assets exclude financial assets, at fair value through profit or loss, financial assets, at fair value through other comprehensive income, financial assets, available-for-sale and deferred income tax assets.

(c) Information about major customers

Sales of approximately US\$42,386,000 (2017: US\$65,605,000) during the financial year were derived from a single external customer. These sales were attributable to the electronic components distribution segment in Hong Kong.

Notes to The Financial Statements

For the financial year ended 31 December 2018

42. Contingent liabilities

On 23 February 2017, the Group received notice that the Securities and Futures Investors Protection Center of Taiwan has filed a civil suit against the Company and three of its senior executives amounting to US\$3.63 million (NT\$113.7 million) ("Suit"). The Suit arose due to charges brought by the public prosecutor of New Taipei District Prosecutor Office against Bull Will Co., Ltd's former chairman, Peter Ho I-Chin, concerning alleged financial statement fraud. Bull Will Co., Ltd has insured its directors and supervisors with a US\$5 million liability insurance which is more than adequate to cover the claims under the Suit. Proceedings in the Suit are currently in progress. The Group has been advised by its lawyers in Taiwan that the Suit is without merit and unlikely to succeed. Accordingly, no provision for any liability has been made in these financial statements.

43. Events after the reporting date

On 12 February 2019, the Group's 91% owned subsidiary, Serial Microelectronics (HK) Limited acquired a 49% equity interest in a newly incorporated company, Lierda Serial China Limited in Hong Kong with an issued and paid up capital share capital of US\$100,000 for a cash consideration of US\$49,000.

44. Authorisation of financial statements

These financial statements were authorised for issue in accordance with a resolution of the directors of Serial System Ltd on 28 March 2019.

Additional Requirements of Singapore Exchange Securities Trading Limited's Listing Manual

For the financial year ended 31 December 2018

1. Directors' remuneration

The following information relates to remuneration of Directors of the Company during the financial year:

	2018	2017
Number of Directors of the Company in remuneration bands:		
S\$2,750,000 to S\$2,999,999	1*	–
S\$2,250,000 to S\$2,499,999	–	1*
S\$0 to S\$249,999	5	5
Total	6	6

* Includes deferred compensation of S\$790,985 (2017: S\$808,252)

2. Auditors' remuneration

The following information relates to remuneration of auditors of the Company and the Group during the financial year:

	2018 US\$'000	2017 US\$'000
Auditors' remuneration paid/payable to:		
- auditors of the Company	220	235
- other auditors*	254	273
Other fees paid/payable to:		
- other auditors*	14	14

* Includes member firms of Moore Stephens International Limited outside Singapore of which the auditors of the Company is a member.

3. Risk management

(a) Operational risk

The Group's electronic components distribution, consumer products distribution and other businesses face constant market risks from technology obsolescence, competition, business and market condition changes. As the Group is engaged in a wide range of products and has a good mix of business serving various industries, it is unlikely that there is a significant concentration of risks in any particular area. The Group operates primarily in Singapore, Hong Kong, China, South Korea, Taiwan, Philippines, Thailand, India, Malaysia, Vietnam and Indonesia. The Group has no reasons to believe these regions/countries are politically unstable. The Group's corporate management team oversees and manages the operations closely with regular business reviews and meetings with operation executives.

(b) Investment risk

The Group invests to enhance growth as well as for strategic alliances and risk diversifications. The Group's corporate management team and key executives of its subsidiaries constantly review its investment portfolios. The Group's independent directors serve as advisors and collectively the board of directors of the Company reviews and approves all investment decisions. Impairment in investment is constantly reviewed and necessary allowances are made as recommended where applicable.

Additional Requirements of Singapore Exchange Securities Trading Limited's Listing Manual

For the financial year ended 31 December 2018

3. Risk management (continued)

(b) Investment risk (continued)

As in all business acquisitions, there is always an adjustment period before the systems of the new business can be fully integrated into the Group's operations. To minimise disruption and to ensure continuity in the operations of the Group's acquired entities after the acquisitions, the Group takes appropriate steps to ensure minimum disruptions to the existing business structure of the acquired entities and that key personnel will continue to be employed by the Group where appropriate.

4. Material contracts

There is no material contract entered into by the Company or any of its subsidiaries involving the interest of the chief executive officer, any director or controlling shareholder of the Company, either still subsisting at the end of the year or entered into since the end of the previous financial year.

5. Investment Property of the Group

Major property held for investment as at 31 December 2018 was:

Location	Description	Existing Use	Tenure	Unexpired term of lease
3rd Floor No.193,195,197,199, Ruei Hu Street Neihu,Taipei Taiwan	1 storey of a 5-storey commercial building	Commercial	Freehold	–

Statistics of Shareholdings

As at 28 March 2019

Issued and Fully Paid-Up Capital (including Treasury Shares)	:	US\$ 72,648,475
Issued and Fully Paid-Up Capital (excluding Treasury Shares)	:	US\$ 71,912,470
Number of Issued Shares (excluding Treasury Shares)	:	895,841,914
Number/Percentage of Treasury Shares	:	9,946,000 (1.11%)
Number/Percentage of Subsidiary Holdings	:	0 (0%)
Class Of Shares	:	Ordinary share
Voting Rights	:	One vote per ordinary share

Distribution of Shareholdings

Size of Shareholdings	Number of Shareholders	%	Number of Shares	%
1 - 99	399	7.31	9,285	0.00
100 – 1,000	671	12.29	406,823	0.05
1,001 - 10,000	2,378	43.56	10,492,661	1.17
10,001- 1,000,000	1,971	36.11	127,805,908	14.26
1,000,001 and above	40	0.73	757,127,237	84.52
Total	5,459	100.00	895,841,914	100.00

Top Twenty Largest Shareholders

Name of Shareholder	Number of Shares	%
Derek Goh Bak Heng	123,919,054	13.83
Goi Seng Hui	119,632,438	13.35
DB Nominees (S) Pte Ltd	82,837,000	9.25
Hong Leong Finance Nominees Pte Ltd	80,850,000	9.03
UOB Nominees (2006) Pte Ltd	51,334,016	5.73
Raffles Nominees (Pte) Ltd	40,843,696	4.56
OCBC Securities Private Ltd	28,058,933	3.13
Tee Yih Jia Food Manufacturing Pte Ltd	24,862,800	2.78
Ho Yung	24,576,200	2.74
Goh Tiong Yong	23,849,200	2.66
Citibank Nominees Singapore Pte Ltd	17,416,978	1.94
DBS Nominees Pte Ltd	13,619,548	1.52
Tan Cheng Hwee or Tan Chiew Peng	12,500,000	1.40
Chin Yeow Hon	11,076,542	1.24
Philip Securities Pte Ltd	11,056,395	1.23
Kim Sang Yeol	10,807,920	1.21
United Overseas Bank Nominees Pte Ltd	9,919,088	1.11
Yu Jie	8,649,064	0.96
Goh Lip Ming	7,500,000	0.84
Maybank Kim Eng Securities Pte. Ltd.	5,983,187	0.67
Total	709,292,059	79.18

Substantial Shareholders

(including shares held under nominees accounts)

Name of Substantial Shareholder	Direct Interest Number of Shares	Deemed Interest Number of Shares	Total Interest Number of Shares	%
Derek Goh Bak Heng	355,090,070	50,000	355,140,070	39.64
Goi Seng Hui	119,632,438	24,862,800*	144,495,238	16.13

* Goi Seng Hui is deemed to have an interest in 24,862,800 shares held by Tee Yih Jia Food Manufacturing Pte Ltd by virtue of Section 7 of the Companies Act, Chapter 50 of Singapore.

As at 28 March 2019, approximately 39.88% of the Company's ordinary shares listed on the Singapore Exchange Securities Trading Limited were held in the hands of the public. The Company has complied with Rule 723 of the Listing Manual of the Singapore Exchange Securities Trading Limited.

Notice of Annual General Meeting

NOTICE IS HEREBY GIVEN that the Annual General Meeting of Serial System Ltd (the “Company”) will be held at 8 Ubi View #05-01 Serial System Building Singapore 408554, on Monday, 29 April 2019 at 11.00 a.m. to transact the following business:

AS ORDINARY BUSINESS

1. To receive and adopt the Audited Financial Statements of the Company for the financial year ended 31 December 2018 and Directors’ Statement and the Independent Auditor’s Report thereon. (Resolution 1)
2. To declare a one-tier tax-exempt Final Cash Dividend of 0.46 Singapore cent per ordinary share for the financial year ended 31 December 2018 (2017: One-tier tax-exempt Final Cash Dividend of 0.46 Singapore cent per ordinary share). (Resolution 2)
3. To approve the payment of Directors’ Fees of S\$281,000 (US\$207,000) for the financial year ended 31 December 2018 [2017: S\$237,000 (US\$172,000)]. (Resolution 3)
4. To approve the payment of Directors’ Fees of S\$281,000 (US\$207,000) for the financial year ending 31 December 2019 payable quarterly in arrears. (Resolution 4)
5. To re-elect Mr. Ravindran s/o Ramasamy as Director, who retires by rotation pursuant to Article 89 of the Company’s Constitution.

Mr. Ravindran s/o Ramasamy will, upon re-election as a Director of the Company, remain as the Chairman of the Remuneration Committee and a member of the Audit Committee and Nominating Committee and will be considered independent for the purposes of Rule 704(8) of the Listing Manual of the Singapore Exchange Securities Trading Limited. (Resolution 5)
6. To re-elect Mr. Ng Cher Yan as Director, who retires by rotation pursuant to Article 89 of the Company’s Constitution.

Mr. Ng Cher Yan will, upon re-election as a Director of the Company, remain as the Chairman of the Nominating Committee and a member of the Audit Committee and 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. (Resolution 6)
7. To re-appoint Messrs Moore Stephens LLP as Auditors of the Company, to hold office until the conclusion of the next Annual General Meeting, and to authorize the Directors to fix their remuneration (Resolution 7)

Notice of Annual General Meeting

AS SPECIAL BUSINESS

To consider and if thought fit, to pass the following Resolution No. 8, Resolution No. 9 and Resolution No. 10 as Ordinary Resolutions, with or without any modifications:

8. Share Issue Mandate

THAT pursuant to Section 161 of the Companies Act, Chapter 50 of Singapore and listing rules of the Singapore Exchange Securities Trading Limited, authority be and is hereby given to the Directors of the Company to issue shares ("Shares") whether by way of rights, bonus or otherwise, and/or grant offers, agreements of options (collectively, "Instruments") that might or would require Shares to be issued, including but not limited to the creation and issue of (as well as adjustments to) warrants, debentures or other instruments convertible into Shares at any time and upon such terms and conditions and to such persons as the Directors may, in their absolute discretion, deem fit provided that:

- (a) the aggregate number of Shares (including Shares to be issued in pursuance of Instruments made or granted pursuant to this Resolution) does not exceed fifty per centum (50%) of the total number of issued shares (excluding treasury shares and subsidiary holdings) in the capital of the Company at the time of the passing of this Resolution, of which the aggregate number of Shares and convertible securities to be issued other than on a pro-rata basis to all shareholders of the Company shall not exceed twenty per centum (20%) of the total number of issued shares (excluding treasury shares and subsidiary holdings) in the share capital of the Company;
- (b) for the purpose of determining the aggregate number of Shares that may be issued under sub-paragraph (a) above, the total number of issued shares (excluding treasury shares and subsidiary holdings) shall be based on the total number of issued shares (excluding treasury shares and subsidiary holdings) of the Company as at the date of the passing of this Resolution, after adjusting for:
 - (i) new shares arising from the conversion or exercise of any convertible securities;
 - (ii) new shares arising from exercising share options outstanding at the time this Resolution is passed; and
 - (iii) any subsequent bonus issue, consolidation or subdivision of shares;
- (c) and that such authority shall, unless revoked or varied by the Company in general meeting, continue in force (i) until the conclusion of the Company's next Annual General Meeting or the date by which the next Annual General Meeting of the Company is required by law to be held, whichever is earlier or (ii) in the case of shares to be issued in accordance with the terms of convertible securities issued, made or granted pursuant to this Resolution, until the issuance of such shares in accordance with the term of such convertible securities.

(See Explanatory Note (i) below)

(Resolution 8)

Notice of Annual General Meeting

9. Authority to offer and grant share options and to allot and issue Shares under the Serial System Employee Share Option Scheme 2014

THAT pursuant to Section 161 of the Companies Act, Chapter 50 of Singapore, the Directors of the Company be and are hereby authorised to offer and grant share options in accordance with the provisions of the Serial System Employee Share Option Scheme 2014 (the "2014 Scheme"), and to allot and issue from time to time such number of Shares in the Company as may be required to be issued pursuant to the exercise of share options granted under the 2014 Scheme, provided that the aggregate number of Shares issued and issuable pursuant to the 2014 Scheme, when added to the aggregate number of Shares issued and issuable pursuant to all other share schemes of the Company, shall not exceed fifteen per centum (15%) of the total issued share capital (excluding treasury shares and subsidiary holdings) of the Company from time to time and provided also that, subject to such adjustments as may be made to the 2014 Scheme as a result of any variation in the capital structure of the Company.

(See Explanatory Note (ii) below)

(Resolution 9)

10. Proposed renewal of the Share Buyback Mandate

That:

- (a) for the purposes of the Companies Act, Chapter 50 of Singapore (the "Act"), the exercise by the Directors of the Company of all the powers of the Company to purchase or otherwise acquire the issued ordinary shares in the capital of the Company ("Shares") not exceeding in aggregate the Prescribed Limit (as hereinafter defined), at such price(s) as may be determined by the Directors of the Company from time to time up to the Maximum Price (as hereinafter defined), whether by way of:

- (i) market purchases (each a "Market Purchase") on the Singapore Exchange Securities Trading Limited ("SGX-ST"); and/or
- (ii) off-market purchases (each an "Off-Market Purchase") effected otherwise than on the SGX-ST in accordance with any equal access scheme as may be determined or formulated by the Directors of the Company as they consider fit, which scheme(s) shall satisfy all the conditions prescribed by the Act,

and otherwise in accordance with all other laws, regulations and the Listing Manual of the SGX-ST as may for the time being be applicable, be and is hereby authorised and approved generally and unconditionally (the "Share Buyback Mandate");

- (b) the authority conferred on the Directors of the Company pursuant to the Share Buyback Mandate may be exercised by the Directors at any time and from time to time during the period commencing from the passing of this Resolution and expiring on the earlier of:
- (i) the date on which the next annual general meeting of the Company ("AGM") is held or is required by law to be held;
 - (ii) the date on which the share buybacks have been carried out to the full extent of the Share Buyback Mandate; or
 - (iii) the date on which the authority contained in the Share Buyback Mandate is varied or revoked;

Notice of Annual General Meeting

(c) in this Resolution:

"Prescribed Limit" means 80,632,791 Shares;

"Maximum Price" in relation to a Share to be purchased, means an amount (excluding brokerage, stamp duties, applicable goods and services tax and other related expenses) not exceeding:

- (i) in the case of a Market Purchase: 105% of the Average Closing Price; and
- (ii) in the case of an Off-Market Purchase: 120% of the Average Closing Price, where:

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

"date of the making of the offer" means the date on which the Company announces its intention to make an offer for the purchase or acquisition of Shares from its Shareholders, stating therein the purchase price (which shall not be more than the Maximum Price calculated on the foregoing basis) for each Share and the relevant terms of the equal access scheme for effecting the Off-Market Purchase; and

- (d) the Directors of the Company be and are hereby authorised to complete and do all such acts and things (including executing such documents as may be required) as they may consider expedient or necessary to give effect to the transactions contemplated by this Resolution."

(See Explanatory Note (iii) below)

(Resolution 10)

By Order of the Board

Alex Wui Heck Koon
Company Secretary

Singapore
8 April 2019

Notice of Annual General Meeting

Explanatory Notes on Special Business to be transacted:

- (i) The proposed Ordinary Resolution No. 8, if passed, will empower the Directors of the Company from date of the above Annual General Meeting until the date of next Annual General Meeting, to allot and issue ordinary shares and convertible securities in the Company up to an amount not exceeding fifty per centum (50%) of the total number of issued shares (excluding treasury shares and subsidiary holdings) in the capital of the Company, of which up to twenty per centum (20%) may be issued other than on a pro-rata basis. For the purpose of this resolution, the total number of issued shares (excluding treasury shares and subsidiary holdings) is based on the Company's total number of issued shares (excluding treasury shares and subsidiary holdings) at the time this proposed Ordinary Resolution is passed after adjusting for new shares arising from the conversion or exercise of convertible securities, the exercise of share options outstanding at the time when this proposed Ordinary Resolution is passed and any subsequent bonus issue, consolidation or subdivision of shares.
- (ii) The proposed Ordinary Resolution No. 9, if passed, will empower the Directors of the Company to offer and grant share options under the 2014 Scheme (which was approved at an Extraordinary General Meeting of the Company held on 26 April 2014) and to allot and issue Shares pursuant to the exercise of share options under the 2014 Scheme up to an amount which, when added to the aggregate number of Shares issued and issuable pursuant to all other share schemes of the Company, shall not exceed fifteen per centum (15%) of the total number of issued Shares (excluding treasury shares and subsidiary holdings) of the Company from time to time and provided also that, subject to such adjustments as may be made to the 2014 Scheme as a result of any variation in the capital structure of the Company.
- (iii) The proposed Ordinary Resolution No. 10, if passed, will empower the Directors of the Company from the date of the above Annual General Meeting to purchase or otherwise acquire Shares by way of Market Purchases or Off-Market Purchases, provided that the aggregate number of Shares to be purchased or acquired under the Share Buyback Mandate does not exceed the Prescribed Limit, and at such price or prices as may be determined by the Directors of the Company from time to time up to but not exceeding the Maximum Price. The information relating to this proposed Ordinary Resolution is set out in the Appendix I enclosed together with the Annual Report.

Notes:-

- 1.
 - (a) A member who is not a relevant intermediary is entitled to appoint not more than two proxies to attend, speak and vote at the Annual General Meeting. Where such member's proxy form appoints more than one proxy, the proportion of the shareholding concerned to be represented by each proxy shall be specified in the proxy form.
 - (b) A member who is a relevant intermediary is entitled to appoint more than two proxies to attend, speak and vote at the Annual General Meeting, but each proxy must be appointed to exercise the rights attached to a different share or shares held by such member. Where such member's proxy form appoints more than two proxies, the number and class of shares in relation to which each proxy has been appointed shall be specified in the proxy form.

"Relevant intermediary" has the same meaning ascribed to it in Section 181 of the Companies Act, Chapter 50 of Singapore.

- 2. A proxy need not be a member of the Company.
- 3. The instrument appointing a proxy or proxies must be deposited at the registered office of the Company at 8 Ubi View #05-01 Serial System Building Singapore 408554, not less than seventy-two (72) hours before the time appointed for holding the Annual General Meeting. Completion and return of the instrument appointing a proxy or proxies shall not preclude a member from attending and voting at the Annual General Meeting. In such event, the relevant instrument appointing a proxy or proxies will be deemed to be revoked.

Notice of Annual General Meeting

4. A member of the Company which is a corporation is entitled to appoint its authorised representative or proxies to vote on its behalf. If the member is a corporation, the instrument appointing a proxy must be executed under common seal or the hand of its duly authorised officer or attorney.
5. A Depositor's name must appear on the Depository Register maintained by the Central Depository (Pte) Limited as at seventy-two (72) hours before the time fixed for the holding of the Annual General Meeting in order for the Depositor to be entitled to attend and vote at the Annual General Meeting.

Personal data privacy:

By submitting an instrument appointing a proxy(ies) and/or representative(s) to attend, speak and vote at the Annual General Meeting and/or any adjournment thereof, a member of the Company (i) consents to the collection, use and disclosure of the member's personal data by the Company (or its agents) for the purpose of the processing and administration by the Company (or its agents) of proxies and representatives appointed for the Annual General Meeting (including any adjournment thereof) and the preparation and compilation of the attendance lists, minutes and other documents relating to the Annual General Meeting (including any adjournment thereof), and in order for the Company (or its agents) to comply with any applicable laws, listing rules, regulations and/or guidelines (collectively, the "Purposes"), (ii) warrants that where the member discloses the personal data of the member's proxy(ies) and/or representative(s) to the Company (or its agents), the member has obtained the prior consent of such proxy(ies) and/or representative(s) for the collection, use and disclosure by the Company (or its agents) of the personal data of such proxy(ies) and/or representative(s) for the Purposes, and (iii) agrees that the member will indemnify the Company in respect of any penalties, liabilities, claims, demands, losses and damages as a result of the member's breach of warranty.

Notice of Books Closure and Dividend Payment Date

NOTICE IS HEREBY GIVEN that the Share Transfer Books and Register of Members of the Company will be closed on 18 May 2019 for the preparation of dividend warrants.

Duly completed registrable transfers received by the Company's Share Registrar, B.A.C.S. Private Limited at 8 Robinson Road #03-00 ASO Building Singapore 048544 up to 5.00 p.m. on 17 May 2019 will be registered to determine shareholders' entitlements to the proposed dividend.

Members whose Securities Accounts with The Central Depository (Pte) Limited are credited with shares at 5.00 p.m. on 17 May 2019 will be entitled to the proposed dividend.

The proposed dividend, if approved by the members at the Annual General Meeting to be held on 29 April 2019, will be paid on 31 May 2019.

By Order of the Board

Alex Wui Heck Koon
Company Secretary

Singapore
8 April 2019

APPENDIX TO SHAREHOLDERS DATED 8 APRIL 2019

THIS APPENDIX IS IMPORTANT AND REQUIRES YOUR IMMEDIATE ATTENTION

This Appendix is circulated to the shareholders (the “Shareholders”) of Serial System Ltd (the “Company”) together with the Company’s annual report for the financial year ended 31 December 2018 (the “Annual Report 2018”). Its purpose is to provide Shareholders with the relevant information relating to, and to seek Shareholders’ approval for, the renewal of the Share Buyback Mandate (as defined in this Appendix) to be tabled at the annual general meeting of the Company to be held on 29 April 2019 at 11.00 a.m. at 8 Ubi View, #05-01, Serial System Building, Singapore 408554.

The ordinary resolution proposed to be passed in respect of the renewal of the Share Buyback Mandate is set out in the notice of the annual general meeting. The notice of the annual general meeting and a proxy form are enclosed with the Annual Report 2018.

Your attention is drawn to page 211 of this Appendix in respect of the actions to be taken if you wish to attend and vote at the annual general meeting.

The Singapore Exchange Securities Trading Limited (“SGX-ST”) assumes no responsibility for the correctness of any of the statements made, reports contained or opinions expressed in this Appendix.

If you have sold all your Shares (as defined in this Appendix), you should immediately forward this Appendix, the Annual Report 2018 and proxy form to the purchaser or to the bank, stockbroker or agent through whom the sale was effected for onward transmission to the purchaser.

If you are in any doubt as to the contents herein or as to any action you should take, you should consult your stockbroker, bank manager, solicitor, accountant or any other professional adviser immediately.



SERIAL SYSTEM LTD

(Incorporated in the Republic of Singapore on 22 April 1992)
(Company Registration Number: 199202071D)

APPENDIX TO SHAREHOLDERS

IN RELATION TO

THE PROPOSED RENEWAL OF THE SHARE BUYBACK MANDATE

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DEFINITIONS

For the purpose of this Appendix, the following definitions have, where appropriate, been used:

"2011 EGM"	: The extraordinary general meeting of the Company held on 23 April 2011
"2019 AGM"	: The annual general meeting of the Company to be held on 29 April 2019 at 11.00 a.m. at <u>8</u> Ubi View, #05-01, Serial System Building, Singapore 408554, notice of which is enclosed with the Annual Report 2018
"AGM"	: The annual general meeting of the Company
"Annual Report 2018"	: The annual report of the Company for FY2018
"Approval Date"	: Has the meaning ascribed to it in Section 1.3.1 of this Appendix
"Associates"	: Shall bear the meaning assigned to it by the Listing Manual
"Average Closing Price"	: Has the meaning ascribed to it in Section 1.3.4 of this Appendix
"Board"	: The board of the Directors of the Company for the time being
"CDP"	: The Central Depository (Pte) Limited
"Companies Act"	: The Companies Act (Chapter 50) of Singapore, as amended, modified or supplemented from time to time
"Company"	: Serial System Ltd
"Constitution"	: The Constitution of the Company
"Controlling Shareholder"	: A person who: (a) holds directly or indirectly 15% or more of the total number of issued Shares excluding treasury shares and subsidiary holdings in the Company. The SGX-ST may determine that a person who satisfies this paragraph is not a Controlling Shareholder; or (b) in fact exercises control over the Company
"date of the making of the offer"	: Has the meaning ascribed to it in Section 1.3.4 of this Appendix
"Directors"	: Directors of the Company for the time being
"EPS"	: Earnings per Share
"Full Share Purchase"	: Has the meaning ascribed to it in Section 1.9.4.2 of this Appendix
"FY"	: Financial year ended or ending 31 December, as the case may be
"Group"	: The Company and its subsidiaries
"Latest Practicable Date"	: 28 March 2019, being the latest practicable date prior to the printing of this Appendix
"Listing Manual"	: The Listing Manual of the SGX-ST, as amended, modified or supplemented from time to time
"Market Day"	: A day on which the SGX-ST is open for trading in securities

"Market Purchase"	: Has the meaning ascribed to it in Section 1.3.3(a) of this Appendix
"Maximum Price"	: Has the meaning ascribed to it in Section 1.3.4 of this Appendix
"NTA"	: Net tangible assets
"Off-Market Purchase"	: Has the meaning ascribed to it in Section 1.3.3(b) of this Appendix
"Ordinary Resolution"	: The ordinary resolution relating to the renewal of the Share Buyback Mandate, as set out in the notice of the 2019 AGM
"Prescribed Limit"	: Has the meaning ascribed to it in Section 1.3.1 of this Appendix
"public"	: Persons other than the directors, chief executive officer, Substantial Shareholders or Controlling Shareholders of the Group, and their Associates
"Registrar"	: Has the meaning ascribed to it in Section 1.10 of this Appendix
"Relevant Period"	: Has the meaning ascribed to it in Section 1.3.2 of this Appendix
"Securities Account"	: Securities account maintained by a Depositor with CDP but not including securities sub-account maintained with a Depository Agent
"Securities and Futures Act"	: The Securities and Futures Act (Chapter 289) of Singapore, as amended, modified or supplemented from time to time
"SGX-ST"	: Singapore Exchange Securities Trading Limited
"Share Buyback"	: The buyback of Shares by the Company pursuant to the terms of the Share Buyback Mandate
"Share Buyback Mandate"	: The general mandate to enable the Company to purchase or otherwise acquire its Shares, the terms of which are set out in Section 1 of this Appendix
"Shareholders"	: Persons who are registered as holders of the Shares except where the registered holder is CDP, in which case the term "Shareholders" shall in relation to such Shares mean the Depositors whose Securities Accounts with CDP are credited with the Shares
"Shares"	: Ordinary shares in the capital of the Company
"SIC"	: The Securities Industry Council
"subsidiaries"	: The subsidiaries of a company (as defined in Section 5 of the Companies Act) and "subsidiary" shall be construed accordingly
"Substantial Shareholder"	: A Shareholder whose interests in the Company's issued share capital is equal to or more than 5%
"Take-over Code"	: The Singapore Code on Take-overs and Mergers, as amended, modified or supplemented from time to time
<i>Currencies and others</i>	
"S\$", "\$" and "cents"	: Singapore dollars and cents respectively
"US\$"	: United States dollar, being the lawful currency of the United States of America
"%" or "per cent"	: Per centum or percentage

Any references in this Appendix to: (a) Dr. Derek Goh shall refer to Dr. Derek Goh Bak Heng; (b) Ms. Victoria Goh shall refer to Ms. Victoria Goh Shi Hui; (c) Mr. Sean Goh shall refer to Mr. Sean Goh Su Teng; and (d) Mr. Sean Goh's spouse shall refer to Mdm. Ho Chi Chia Brenda, respectively.

The terms "**Depositor**", "**Depository Register**" and "**Depository Agent**" shall have the meanings ascribed to them respectively in Section 81SF of the Securities and Futures Act.

The term "**treasury share**" shall have the meaning ascribed to it in Section 4 of the Companies Act.

Any reference in this Appendix to any enactment is a reference to that enactment as for the time being amended or re-enacted.

Words importing the singular shall, where applicable, include the plural and vice versa and words importing the masculine gender shall, where applicable, include the feminine and neuter genders.

References to persons shall, where applicable, include corporations.

Any reference to a time of a day in this Appendix is a reference to Singapore time unless otherwise stated.

Any discrepancies in the tables in this Appendix between the listed amounts and the totals thereof and/or the respective percentages are due to rounding.

SERIAL SYSTEM LTD

(Incorporated in the Republic of Singapore on 22 April 1992)
(Company Registration Number: 199202071D)

Directors:

Dr. Derek Goh Bak Heng (Executive Chairman and Group CEO)
Mr. Teo Ser Luck (Non-Executive Independent Deputy Chairman)
Mr. Tan Lye Heng Paul (Non-Executive and Lead Independent Director)
Mr. Ravindran s/o Ramasamy (Non-Executive and Independent Director)
Mr. Ng Cher Yan (Non-Executive and Independent Director)

Registered Office:

8 Ubi View, #05-01,
Serial System Building
Singapore 408554

8 April 2019

To: The Shareholders of Serial System Ltd

THE PROPOSED RENEWAL OF THE SHARE BUYBACK MANDATE

Dear Shareholder,

1. The proposed renewal of the Share Buyback Mandate

1.1 Introduction

The purpose of this Appendix is to provide Shareholders with relevant information pertaining to, and to seek Shareholders' approval at the 2019 AGM for, *inter alia*, the renewal of the Share Buyback Mandate.

Any purchase or acquisition of Shares by the Company must be made in accordance with, and in the manner prescribed by the Companies Act, the Listing Manual, the Constitution of the Company and such other laws and regulations as may for the time being be applicable.

At the 2011 EGM, the Shareholders had approved the Share Buyback Mandate to enable the Company to purchase or otherwise acquire Shares. The mandate was last renewed at the AGM held on 28 April 2018, and will unless renewed again, expire on the date of the 2019 AGM.

In this regard, approval is now being sought from Shareholders for the renewal of the Share Buyback Mandate at the 2019 AGM. The Ordinary Resolution will be proposed, pursuant to which authority will be given to the Directors to exercise all powers of the Company to purchase or otherwise acquire Shares on the terms of the Share Buyback Mandate.

If approved, the renewal of the Share Buyback Mandate will take effect from the date of the 2019 AGM and continue in force until the date of the next AGM or such date as the next AGM is required by law to be held, whichever is the earlier, unless prior thereto, Share Buybacks are carried out to the full extent mandated or the Share Buyback Mandate is revoked or varied by the Company in a general meeting.

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

1.2 Rationale

The Directors are of the view that a Share Buyback, conducted at an appropriate price level, may enhance the return on equity of the Group and increase Shareholders' value. Share Buybacks are a cost-efficient and effective method of returning to the Shareholders surplus cash over and above the Company's ordinary capital requirements, and provide the Directors greater flexibility over the Company's share capital structure with a view to enhancing the EPS and/or NTA value per Share.

The Directors are also of the view that Share Buybacks may help mitigate short-term market volatility and offset the effects of short-term speculation, as well as bolster the confidence of Shareholders.

If and when circumstances permit, the Directors will decide whether to effect the Share purchases via Market Purchases or Off-Market Purchases, after taking into account the amount of cash available and the prevailing market conditions. The Directors do not propose to carry out Share Buybacks to an extent that would, or in circumstances that might, result in a material adverse effect on the liquidity, the orderly trading of the Shares and/or the financial position of the Group, taking into account the working capital requirements of the Company or the gearing levels, which in the opinion of the Directors, are from time to time appropriate for the Company.

1.3 Terms of the Share Buyback Mandate

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

1.3.1 Maximum number of Shares

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

The Companies Act provides that the total number of shares that may be purchased or acquired by a company shall not exceed that number of shares representing not more than 10% of the issued ordinary share capital of the company (excluding treasury shares and subsidiary holdings) as at the date of the general meeting at which the renewal of its share buyback mandate is approved (the “**Approval Date**”) (unless the company has effected a reduction of the share capital of the company in accordance with the applicable provisions of the Companies Act, at any time during the Relevant Period, in which event the issued ordinary share capital of the company shall be taken to be the number of the issued ordinary shares of the company as altered, excluding any treasury shares and subsidiary holdings that may be held by the company from time to time). Shares which are held as treasury shares or subsidiary holdings will be disregarded for purposes of computing the 10% limit.

For illustrative purposes only, assuming that the Company has 895,841,914 Shares as at the date of the 2019 AGM (being the number of Shares as at the Latest Practicable Date, excluding treasury shares and subsidiary holdings and assuming no change in the number of Shares on or prior to the date of the 2019 AGM), not more than 89,584,191 Shares representing approximately 10% of the Company’s existing issued ordinary share capital (excluding treasury shares and subsidiary holdings) may be purchased or acquired by the Company, pursuant to the limits set out in the Companies Act.

Notwithstanding the above, subject to the limits under Section 761(1) of the Companies Act in respect of a company’s shares held in treasury, the maximum number of Shares that the Company can purchase or acquire and hold in treasury (assuming no change in the number of Shares held in treasury on or prior to the 2019 AGM) will be 80,632,791 Shares, instead of the aforesaid 10% of the total number of issued Shares (excluding treasury shares and subsidiary holdings), i.e. 89,584,191 Shares. As such, the Company is seeking a Share Buyback Mandate to enable the Company to purchase or otherwise acquire Shares of up to a maximum of 80,632,791 Shares (the “**Prescribed Limit**”) at the 2019 AGM. Please refer to Section 1.7.2 of this Appendix for further details.

1.3.2 Duration of authority

Purchases or acquisitions of Shares may be made, at any time and from time to time, on and from the Approval Date, up to the earlier of:

- (a) the date on which the next AGM of the Company is held or is required by law to be held;
- (b) the date on which the Share Buybacks are carried out to the full extent mandated; or
- (c) the date on which the authority contained in the Share Buyback Mandate is varied or revoked by the Shareholders in general meeting,

(the “**Relevant Period**”).

1.3.3 Manner of purchase of Shares

Purchases of Shares may be made by way of, *inter alia*:

- (a) on-market purchases ("**Market Purchase**") transacted on the SGX-ST through the SGX-ST's trading system or, as the case may be, any other securities exchange on which the Shares may for the time being be listed and quoted, through one or more duly licensed stockbrokers appointed by the Company for that purpose; and/or
- (b) off-market purchases ("**Off-Market Purchase**") (if effected otherwise than on the SGX-ST) in accordance with an equal access scheme(s) as may be determined or formulated by the Directors as they may consider fit, which scheme(s) shall satisfy all the conditions prescribed by the Companies Act and the Listing Manual.

Under the Companies Act, an equal access scheme must satisfy all of the following conditions:

- (a) offers for the purchase or acquisition of shares are to be made to every person who holds shares to purchase or acquire the same percentage of their shares;
- (b) all of those persons have a reasonable opportunity to accept the offers made to them; and
- (c) the terms of all the offers are the same, except that there shall be disregarded:
 - (i) differences in consideration attributable to the fact that offers may relate to Shares with different accrued dividend entitlements;
 - (ii) (if applicable) differences in consideration attributable to the fact that offers relate to Shares with different amounts remaining unpaid; and
 - (iii) differences in the offers introduced solely to ensure that each person is left with a whole number of Shares.

In addition, the Listing Manual provides that, in making an Off-Market Purchase in accordance with an equal access scheme, the Company must issue an offer document to all Shareholders which must contain at least the following information:

- (a) the terms and conditions of the offer;
- (b) the period and procedures for acceptances;
- (c) the reasons for the proposed Share Buyback;
- (d) the consequences, if any, of Share Buybacks by the Company that will arise under the Take-over Code or other applicable take-over rules;
- (e) whether the Share Buyback, if made, would have any effect on the listing of the Shares on the SGX-ST;
- (f) details of any Share Buyback made by the Company in the previous 12 months (whether Market Purchases or Off-Market Purchases in accordance with an equal access scheme), giving the total number of Shares purchased, the purchase price per Share or the highest and lowest prices paid for the purchases, where relevant, and the total consideration paid for the purchases; and
- (g) whether the Shares purchased by the Company will be cancelled or kept as treasury shares.

1.3.4 Maximum Purchase Price

The purchase price (excluding brokerage, stamp duties, applicable goods and services tax and other related expenses) to be paid for the Shares will be determined by the Directors. However, the purchase price to be paid for a Share as determined by the Directors must not exceed:

- (a) in the case of a Market Purchase, 105% of the Average Closing Price (as defined hereinafter); and

- (b) in the case of an Off-Market Purchase pursuant to an equal access scheme, 120% of the Average Closing Price (as defined hereinafter),

(the “**Maximum Price**”) in either case, excluding related expenses of the purchase.

For the above purposes:

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

“**date of the making of the offer**” means the date on which the Company announces its intention to make an offer for the purchase or acquisition of Shares from its Shareholders, stating therein the purchase price (which shall not be more than the Maximum Price calculated on the foregoing basis) for each Share and the relevant terms of the equal access scheme for effecting the Off-Market Purchase.

1.4 Status of purchased Shares under the Share Buyback Mandate

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

1.5 Treasury shares

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

1.5.1 Maximum holdings

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

In the event that the number of treasury shares held by the Company exceeds 10% of the total number of Shares, the Company shall dispose of or cancel the excess Shares within six (6) months of the day on which such contravention occurs, or such further period as the Registrar of Companies may allow.

1.5.2 Voting and other rights

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

In addition, no dividend may be paid, and no other distribution of the Company’s assets may be made, to the Company in respect of treasury shares. However, the allotment of Shares as fully paid bonus shares in respect of treasury shares is allowed. Furthermore, a subdivision or consolidation of any treasury share into treasury shares of a greater or smaller number is allowed, if the total value of the treasury shares after the subdivision or consolidation is the same as the total value of the treasury share before the subdivision or consolidation, as the case may be.

1.5.3 Disposal and cancellation

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

- (a) sell the treasury shares for cash;
- (b) transfer the treasury shares for the purposes of or pursuant to any share scheme, whether for its employees, directors or other persons;
- (c) transfer the treasury shares as consideration for the acquisition of shares in or assets of another company or assets of a person;
- (d) cancel the treasury shares; or
- (e) sell, transfer or otherwise use the treasury shares for such other purposes as may be prescribed by the Minister for Finance.

Pursuant to Rule 704(28) of the Listing Manual, the Company will immediately announce any sale, transfer, cancellation and/or use of treasury shares, including the following:

- (i) date of the sale, transfer, cancellation and/or use;
- (ii) purpose of such sale, transfer, cancellation and/or use;
- (ii) number of treasury shares sold, transferred, cancelled and/or used;
- (iv) the number of treasury shares before and after such sale, transfer, cancellation and/or use;
- (v) percentage of the number of treasury shares against the total number of shares outstanding in a class that is listed before and after such sale, transfer, cancellation and/or use; and
- (vi) value of the treasury shares if they are used for a sale or transfer, or cancelled.

1.6 Sources of funds for Share Buyback

The Companies Act permits the Company to make payment, pursuant to the purchase or acquisition of its own Shares, out of capital as well as from its distributable profits, so long as the Company is solvent. The Companies Act provides that a Company is solvent if at the date of the relevant payment, the following conditions are satisfied:

- (a) there is no ground on which the Company could be found to be unable to pay its debts;
- (b) if
 - (i) it is intended to commence winding up of the Company within the period of 12 months immediately after the date of the payment, the Company will be able to pay its debts in full within the period of 12 months after the date of commencement of the winding up; or
 - (ii) it is not intended to commence winding up, the Company will be able to pay its debts as they fall due during the period of 12 months immediately after the date of the payment; and
- (c) the value of the Company's assets is not less than the value of its liabilities (including contingent liabilities) and will not, after the proposed purchase or acquisition of Shares, become less than the value of its liabilities (including contingent liabilities).

The Company intends to use internal resources, external borrowings or a combination of both to finance purchases or acquisitions of Shares pursuant to the Share Buyback Mandate.

The Directors do not propose to exercise the Share Buyback Mandate in a manner and to such extent that the Group's working capital, current dividend policy and/or ability to service its debts would be adversely affected.

1.7 Financial effects of the Share Buyback Mandate

The financial effects on the Company and the Group arising from purchases or acquisitions of Shares which may be made pursuant to the Share Buyback Mandate will depend on, *inter alia*, how the Shares are purchased or acquired, the price paid for such Shares and whether the Shares purchased or acquired are held as treasury shares or cancelled. The financial effects on the Company and the Group, based on the audited financial statements of the Company and the Group for the financial year ended 31 December 2018, are based on the following principal assumptions:

- (a) the purchase or acquisition of Shares pursuant to the Share Buyback Mandate had taken place on 1 January 2018 for the purpose of computing the financial effects on the EPS of the Group and the Company;
- (b) the purchase or acquisition of Shares pursuant to the Share Buyback Mandate had taken place on 1 January 2018 for the purpose of computing the financial effects on the Shareholders' equity, NTA per Share, gearing and current ratio of the Group and the Company; and
- (c) transaction costs incurred for the purchase or acquisition of Shares pursuant to the Share Buyback Mandate are assumed to be insignificant and have been ignored for the purpose of computing the financial effects.

1.7.1 Purchase or acquisition out of capital or profits

Under the Companies Act, purchases or acquisitions of Shares by the Company may be made out of the Company's capital or profits so long as the Company is solvent.

Where the amounts paid by the Company for the purchase or acquisition of Shares are made out of profits, such amounts will correspondingly reduce the amount available for the distribution of cash dividends by the Company. Where the amounts paid by the Company for the purchase or acquisition of Shares are made out of capital, the amount available for the distribution of cash dividends by the Company will not be reduced but the issued share capital of the Company will be reduced by such amounts. The total amount of the purchase or acquisition price shall include any expenses (including brokerage or commission) incurred directly in the purchase or acquisition of the Shares which is paid out of the Company's capital or profits.

1.7.2 Number of Shares acquired or purchased

Assuming there is no change in the number of Shares, and the number of Shares held in treasury on or prior to the date of the 2019 AGM:

- (i) as at the Latest Practicable Date, the Company has 895,841,914 issued Shares (excluding treasury shares and subsidiary holdings);
- (ii) the Company may purchase or acquire up to 89,584,191 Shares under the Companies Act (being 10% of its issued Shares (excluding treasury shares and subsidiary holdings));
- (iii) as at the Latest Practicable Date, the Company has 9,946,000 Shares held in treasury;
- (iv) the Company may hold up to 90,578,791 Shares in treasury (being 10% of its total number of Shares) pursuant to Section 76(1) of the Companies Act; and
- (v) the Company may purchase or acquire up to 80,632,791 Shares under the renewed Share Buyback Mandate to be held as treasury shares.

As at the Latest Practicable Date, no Shares are reserved for issue by the Company.

For illustrative purposes, the Company has assumed that it will only purchase or acquire up to 80,632,791 Shares under the Share Buyback Mandate, to be held as treasury shares.

1.7.3 Maximum price paid for Shares acquired or purchased

In the case of Market Purchases by the Company:

Assuming the Company purchases or acquires 80,632,791 Shares at the maximum price of S\$0.0924 (equivalent to US\$0.0685 for one (1) Share (being the price equivalent to 5% above the average of the closing market prices of the Shares over the five (5) Market Days on which transactions in the Shares were recorded immediately preceding the Latest Practicable Date), the maximum amount of funds required for the purchase or acquisition of 80,632,791 Shares is approximately US\$5,523,346.

In the case of Off-Market Purchases by the Company:

Assuming the Company purchases or acquires 80,632,791 Shares at the maximum price of S\$0.1056 (equivalent to US\$0.0783) for one (1) Share (being the price equivalent to 20% above the average of the closing market prices of the Shares over the five (5) Market Days on which transactions in the Shares were recorded immediately preceding the Latest Practicable Date), the maximum amount of funds required for the purchase or acquisition of 80,632,791 Shares is approximately US\$6,313,548.

1.7.4 Illustrative financial effects

For illustrative purposes only, and on the basis of the assumptions set out below, the financial effects of the:

- (i) acquisition of Shares by the Company pursuant to the Share Buyback Mandate by way of purchases made out of capital and held as treasury shares; and
- (i) purchases made out of capital and cancelled;

based on the audited financial statements of the Group and the Company for FY2018 are set out in the sections below.

The financial effects of the acquisition of Shares by the Company pursuant to the Share Buyback Mandate by way of purchases made out of profits are similar to that of purchases made out of capital. Therefore, only the financial effects of the acquisition of the Shares pursuant to the Share Buyback Mandate by way of purchases made out of capital are set out in this Appendix.

Scenario 1(A)

Market Purchases of 80,632,791 Shares out of capital and held in treasury

	The Group		The Company	
	Before the Share Buyback	After the Share Buyback	Before the Share Buyback	After the Share Buyback
As at 31 December 2018	US\$'000	US\$'000	US\$'000	US\$'000
Share Capital	72,648	72,648	72,648	72,648
Treasury Shares	(736)	(6,259)	(736)	(6,259)
Capital Reserve	1,276	1,276	180	180
Defined Benefit Plans Reserve	(206)	(206)	–	–
Fair Value Reserve	(742)	(742)	–	–
Revaluation Reserve	59	59	–	–
Other Reserve	(765)	(765)	–	–
Currency Translation Reserve	4,794	4,794	–	–
Retained Earnings	60,401	60,401	27,486	27,486
Non-Controlling Interests	7,732	7,732	–	–
Shareholders' Equity	144,461	138,938	99,578	94,055
NTA	127,667	122,144	99,520	93,997
Current Assets	458,521	455,760	26,736	23,975
Current Liabilities	371,502	374,264	20,425	23,187
Working Capital	87,019	81,496	6,311	788
Total Borrowings ⁽¹⁾	215,037	217,799	6,704	9,466
Cash and Cash Equivalents ⁽¹⁾	59,180	56,419	8,057	5,296
Net Profit	17,655	17,655	4,491	4,491
Number of Shares ⁽²⁾	895,841,914	815,209,123	895,841,914	815,209,123
Weighted Average Number of Shares	895,841,914	815,209,123	895,841,914	815,209,123
Financial Ratios				
NTA per Share (US\$ cents)	14.25	14.98	11.11	11.53
Basic EPS (US\$ cents) ⁽³⁾	1.97	2.17	0.50	0.55
Gearing % ⁽⁴⁾	149	157	7	10
Current Ratio (times) ⁽⁵⁾	1.23	1.22	1.31	1.03

Notes:

- ⁽¹⁾ Assuming the Share Buyback will be funded 50% by internal resources and 50% by external borrowings.
- ⁽²⁾ Number of Shares excludes 90,578,791 Shares that are held as treasury shares and assumes no change in the number of Shares on or prior to the date of the 2019 AGM.
- ⁽³⁾ EPS is computed based on FY2018 net profit attributable to Shareholders divided by the weighted average number of Shares.
- ⁽⁴⁾ Gearing equals total borrowings divided by Shareholders' equity.
- ⁽⁵⁾ Current Ratio equals current assets divided by current liabilities.

Scenario 1(B)

Off-Market Purchases of 80,632,791 Shares out of capital and held in treasury

	The Group		The Company	
	Before the Share Buyback	After the Share Buyback	Before the Share Buyback	After the Share Buyback
As at 31 December 2018	US\$'000	US\$'000	US\$'000	US\$'000
Share Capital	72,648	72,648	72,648	72,648
Treasury Shares	(736)	(7,050)	(736)	(7,050)
Capital Reserve	1,276	1,276	180	180
Defined Benefit Plans Reserve	(206)	(206)	–	–
Fair Value Reserve	(742)	(742)	–	–
Revaluation Reserve	59	59	–	–
Other Reserve	(765)	(765)	–	–
Currency Translation Reserve	4,794	4,794	–	–
Retained Earnings	60,401	60,401	27,486	27,486
Non-Controlling Interests	7,732	7,732	–	–
Shareholders' Equity	144,461	138,147	99,578	93,264
NTA	127,667	121,353	99,520	93,206
Current Assets	458,521	455,364	26,736	23,579
Current Liabilities	371,502	374,659	20,425	23,582
Working Capital	87,019	80,705	6,311	(3)
Total Borrowings ⁽¹⁾	215,037	218,194	6,704	9,861
Cash and Cash Equivalents ⁽¹⁾	59,180	56,023	8,057	4,900
Net Profit	17,655	17,655	4,491	4,491
Number of Shares ⁽²⁾	895,841,914	815,209,123	895,841,914	815,209,123
Weighted Average Number of Shares	895,841,914	815,209,123	895,841,914	815,209,123
Financial Ratios				
NTA per Share (US\$ cents)	14.25	14.89	11.11	11.43
Basic EPS (US\$ cents) ⁽³⁾	1.97	2.17	0.50	0.55
Gearing % ⁽⁴⁾	149	158	7	11
Current Ratio (times) ⁽⁵⁾	1.23	1.22	1.31	1.00

Notes:

- ⁽¹⁾ Assuming the Share Buyback will be funded 50% by internal resources and 50% by external borrowings.
- ⁽²⁾ Number of Shares excludes 90,578,791 Shares that are held as treasury shares and assumes no change in the number of Shares on or prior to the date of the 2019 AGM.
- ⁽³⁾ EPS is computed based on FY2018 net profit attributable to Shareholders divided by the weighted average number of Shares.
- ⁽⁴⁾ Gearing equals total borrowings divided by Shareholders' equity.
- ⁽⁵⁾ Current Ratio equals current assets divided by current liabilities.

Scenario 2(A)

Market Purchases of 80,632,791 Shares out of capital and cancelled

	The Group		The Company	
	Before the Share Buyback US\$'000	After the Share Buyback US\$'000	Before the Share Buyback US\$'000	After the Share Buyback US\$'000
As at 31 December 2018				
Share Capital	72,648	67,125	72,648	67,125
Treasury Shares	(736)	(736)	(736)	(736)
Capital Reserve	1,276	1,276	180	180
Defined Benefit Plans Reserve	(206)	(206)	–	–
Fair Value Reserve	(742)	(742)	–	–
Revaluation Reserve	59	59	–	–
Other Reserve	(765)	(765)	–	–
Currency Translation Reserve	4,794	4,794	–	–
Retained Earnings	60,401	60,401	27,486	27,486
Non-Controlling Interests	7,732	7,732	–	–
Shareholders' Equity	144,461	138,938	99,578	94,055
NTA	127,667	122,144	99,520	93,997
Current Assets	458,521	455,760	26,736	23,975
Current Liabilities	371,502	374,264	20,425	23,187
Working Capital	87,019	81,496	6,311	788
Total Borrowings ⁽¹⁾	215,037	217,799	6,704	9,466
Cash and Cash Equivalents ⁽¹⁾	59,180	56,419	8,057	5,296
Net Profit	17,655	17,655	4,491	4,491
Number of Shares ⁽²⁾	895,841,914	815,209,123	895,841,914	815,209,123
Weighted Average Number of Shares	895,841,914	815,209,123	895,841,914	815,209,123
Financial Ratios				
NTA per Share (US\$ cents)	14.25	14.98	11.11	11.53
Basic EPS (US\$ cents) ⁽³⁾	1.97	2.17	0.50	0.55
Gearing % ⁽⁴⁾	149	157	7	10
Current Ratio (times) ⁽⁵⁾	1.23	1.22	1.31	1.03

Notes:

- ⁽¹⁾ Assuming the Share Buyback will be funded 50% by internal resources and 50% by external borrowings.
- ⁽²⁾ Number of Shares excludes 80,632,791 Shares that are cancelled and assumes no change in the number of Shares on or prior to the date of the 2019 AGM.
- ⁽³⁾ EPS is computed based on FY2018 net profit attributable to Shareholders divided by the weighted average number of Shares.
- ⁽⁴⁾ Gearing equals total borrowings divided by Shareholders' equity.
- ⁽⁵⁾ Current Ratio equals current assets divided by current liabilities.

Scenario 2(B)

Off-Market Purchases of 80,632,791 Shares out of capital and cancelled

	The Group		The Company	
	Before the Share Buyback US\$'000	After the Share Buyback US\$'000	Before the Share Buyback US\$'000	After the Share Buyback US\$'000
As at 31 December 2018				
Share Capital	72,648	66,334	72,648	66,334
Treasury Shares	(736)	(736)	(736)	(736)
Capital Reserve	1,276	1,276	180	180
Defined Benefit Plans Reserve	(206)	(206)	–	–
Fair Value Reserve	(742)	(742)	–	–
Revaluation Reserve	59	59	–	–
Other Reserve	(765)	(765)	–	–
Currency Translation Reserve	4,794	4,794	–	–
Retained Earnings	60,401	60,401	27,486	27,486
Non-Controlling Interests	7,732	7,732	–	–
Shareholders' Equity	144,461	138,147	99,578	93,264
NTA	127,667	121,353	99,520	93,206
Current Assets	458,521	455,364	26,736	23,579
Current Liabilities	371,502	374,659	20,425	23,582
Working Capital	87,019	80,705	6,311	(3)
Total Borrowings ⁽¹⁾	215,037	218,194	6,704	9,861
Cash and Cash Equivalents ⁽¹⁾	59,180	56,023	8,057	4,900
Net Profit	17,655	17,655	4,491	4,491
Number of Shares ⁽²⁾	895,841,914	815,209,123	895,841,914	815,209,123
Weighted Average Number of Shares	895,841,914	815,209,123	895,841,914	815,209,123
Financial Ratios				
NTA per Share (US\$ cents)	14.25	14.89	11.11	11.43
Basic EPS (US\$ cents) ⁽³⁾	1.97	2.17	0.50	0.55
Gearing % ⁽⁴⁾	149	158	7	11
Current Ratio (times) ⁽⁵⁾	1.23	1.22	1.31	1.00

Notes:

- ⁽¹⁾ Assuming the Share Buyback will be funded 50% by internal resources and 50% by external borrowings.
- ⁽²⁾ Number of Shares excludes 80,632,791 Shares that are cancelled and assumes no change in the number of Shares on or prior to the date of the 2019 AGM.
- ⁽³⁾ EPS is computed based on FY2018 net profit attributable to Shareholders divided by the weighted average number of Shares.
- ⁽⁴⁾ Gearing equals total borrowings divided by Shareholders' equity.
- ⁽⁵⁾ Current Ratio equals current assets divided by current liabilities.

Shareholders should note that the financial effects set out above are for illustrative purposes only. In particular, it is important to note that the above analysis is based on historical audited financial statements for FY2018 and is not necessarily representative of future financial performance.

Although the Share Buyback Mandate would authorise the Company to purchase or acquire Shares up to the Prescribed Limit, the Company may not necessarily purchase or acquire or be able to purchase or acquire Shares up to the Prescribed Limit. In addition, the Company may cancel all or part of the Shares repurchased or hold all or part of the Shares repurchased as treasury shares.

1.8 Listing status of the Shares

Rule 723 of the Listing Manual requires a listed company to ensure that at least 10% of its total number of issued shares excluding treasury shares must be held by public shareholders. As at the Latest Practicable Date, approximately 39.88% of the issued Shares (excluding treasury shares and subsidiary holdings) are held by public Shareholders. As at the Latest Practicable Date and assuming the Company undertakes purchases or acquisitions of its Shares up to the Prescribed Limit pursuant to the renewed Share Buyback Mandate, approximately 33.93% of the issued Shares (excluding treasury shares and subsidiary holdings) will be held by public Shareholders. Accordingly, the Company is of the view that there is a sufficient number of the Shares in issue held by public Shareholders which would permit the Company to undertake purchases or acquisitions of its Shares up to the Prescribed Limit pursuant to the renewed Share Buyback Mandate without affecting the listing status of the Shares on the SGX-ST, and that the number of Shares remaining in the hands of the public will not fall to such a level as to cause market illiquidity or to affect orderly trading.

1.9 Take-over implications

Appendix 2 of the Take-over Code contains the Share Buyback Guidance Note applicable as at the Latest Practicable Date. The take-over implications arising from any purchase or acquisition by the Company of its Shares are set out below:

1.9.1 Obligation to make a take-over offer

If, as a result of any purchase or acquisition by the Company of its Shares, a Shareholder's proportionate interest in the voting capital of the Company increases, such increase will be treated as an acquisition for the purposes of Rule 14 of the Take-over Code. If such increase results in a change of effective control, or, as a result of such increase, a Shareholder or group of Shareholders acting in concert obtains or consolidates effective control of the Company, such Shareholder or group of Shareholders acting in concert could become obliged to make a mandatory take-over offer for the Company under Rule 14 of the Take-over Code.

1.9.2 Persons acting in concert

Under the Take-over Code, persons acting in concert comprise individuals or companies who, pursuant to an agreement or understanding (whether formal or informal), cooperate, through the acquisition by any of them of shares in a company, to obtain or consolidate effective control of that company.

Unless the contrary is established, the following persons will, *inter alia*, be presumed to be acting in concert:

- (a) a company with its parent company, subsidiaries, its fellow subsidiaries, any associated companies of the foregoing companies, any company whose associated companies include any of the foregoing companies, and any person who has provided financial assistance (other than a bank in the ordinary course of business) to any of the foregoing companies for the purchase of voting rights;
- (b) a company with any of its directors, together with their close relatives, related trusts as well as companies controlled by any of the directors, their close relatives and related trusts;
- (c) a company with any of its pension funds and employee share schemes;
- (d) a person with any investment company, unit trust or other fund whose investment such person manages on a discretionary basis, but only in respect of the investment account which such person manages;

- (e) a financial or other professional adviser, including a stockbroker, with its client in respect of the shareholdings of the adviser and persons controlling, controlled by or under the same control as the adviser, and all the funds which the adviser manages on a discretionary basis, where the shareholdings of the adviser and any of those funds in the client total 10% or more of the client's equity share capital;
- (f) directors of a company (together with their close relatives, related trusts and companies controlled by any of such directors, their close relatives and related trusts) which is subject to an offer or where the directors have reason to believe a bona fide offer for their company may be imminent;
- (g) partners; and
- (h) an individual, his close relatives, his related trusts, any person who is accustomed to act according to the instructions of that individual, companies controlled by any of the above, and any person who has provided financial assistance (other than a bank in the ordinary course of business) to any of the above for the purchase of voting rights.

For this purpose, a company is an "associated company" of another company if the second company owns or controls at least 20% but not more than 50% of the voting rights of the first-mentioned company.

1.9.3 Effect of Rule 14 and Appendix 2 of the Take-over Code

In general terms, the effect of Rule 14 and Appendix 2 of the Take-over Code is that, unless exempted, Directors of the Company and persons acting in concert with them will incur an obligation to make a take-over offer for the Company under Rule 14 of the Take-over Code if, as a result of the Company purchasing or acquiring its Shares, the voting rights of such Directors and their concert parties would increase to 30% or more, or if the voting rights of such Directors and their concert parties fall between 30% and 50% of the Company's voting rights, the voting rights of such Directors and their concert parties would increase by more than 1% in any period of six (6) months. The Directors and their concert parties will be exempted from the obligation to make a take-over offer subject to certain conditions, including, *inter alia*, the submission by each of the Directors of an executed form prescribed by the SIC within seven (7) days of the passing of the resolution to authorise the renewal of the Share Buyback Mandate.

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

1.9.4 Application of the Take-over Code

Details of the holdings in Shares by the Directors and Substantial Shareholders of the Company as at the Latest Practicable Date are set out in Section 2 below.

1.9.4.1 *Dr. Derek Goh, Ms. Victoria Goh, Mr. Sean Goh and Mr. Sean Goh's spouse*

For the purposes of the Take-over Code, Dr. Derek Goh, our Executive Chairman and Group Chief Executive Officer, Ms. Victoria Goh, Dr. Derek Goh's daughter and a Business Development and Marketing Manager of the Group, Mr. Sean Goh, Dr. Derek Goh's cousin and Group Senior Vice President and Chief Operating Officer, Consumer Products Distribution of the Group and Mr. Sean Goh's spouse, may be presumed to be acting in concert.

As at the Latest Practicable Date, the combined shareholding of Dr. Derek Goh, Ms. Victoria Goh, Mr. Sean Goh and Mr. Sean Goh's spouse in the Company amounts to 355,778,370 Shares, representing approximately 39.71% of the issued Shares (excluding treasury shares and subsidiary holdings) of the Company.

Dr. Derek Goh, Ms. Victoria Goh, Mr. Sean Goh and Mr. Sean Goh's spouse have not purchased any Shares in the six (6) months preceding the Latest Practicable Date.

1.9.4.2 Consequence of Share Buybacks

Based on 895,841,914 issued Shares of the Company (excluding treasury shares and subsidiary holdings) as at the Latest Practicable Date, the exercise in full of the Share Buyback Mandate, given the limits under Section 76(1) of the Companies Act in respect of a Company's Shares held in treasury, up to the Prescribed Limit would result in the purchase of 80,632,791 Shares.

If the exercise in full of the Share Buyback Mandate by the Company ("**Full Share Purchase**") causes the aggregate voting rights of Dr. Derek Goh and parties acting in concert with him, including Ms. Victoria Goh, Mr. Sean Goh and Mr. Sean Goh's spouse, if applicable, to increase by more than 1% (assuming such increases occur within six (6) months), Dr. Derek Goh and parties acting in concert with him, including Ms. Victoria Goh, Mr. Sean Goh and Mr. Sean Goh's spouse, if applicable, would thereby incur an obligation to make a general offer under Rule 14 of the Take-over Code.

Based on the direct holdings of Shares of Dr. Derek Goh, Ms. Victoria Goh, Mr. Sean Goh and Mr. Sean Goh's spouse as at the Latest Practicable Date and assuming that:

- (a) the Company undertakes Share Buybacks under the Share Buyback Mandate up to the Prescribed Limit as permitted by the Share Buyback Mandate;
- (b) there is no change in Dr. Derek Goh's, Ms. Victoria Goh's, Mr. Sean Goh's or Mr. Sean Goh's spouse's direct holdings of Shares between the Latest Practicable Date and the date of the 2019 AGM; and
- (c) there is no change in Dr. Derek Goh's, Ms. Victoria Goh's, Mr. Sean Goh's or Mr. Sean Goh's spouse's direct holdings of Shares between the date of the 2019 AGM and the date of the Full Share Purchase,

the aggregate voting rights of Dr. Derek Goh in the Company will increase from approximately 39.64% to approximately 43.56%, and the aggregate voting rights of Dr. Derek Goh, Ms. Victoria Goh, Mr. Sean Goh and Mr. Sean Goh's spouse in the Company will increase from approximately 39.71% to approximately 43.64%.

In such event, Dr. Derek Goh and parties acting in concert with him, including Ms. Victoria Goh, Mr. Sean Goh and Mr. Sean Goh's spouse, if applicable, will, unless exempted, thereby incur an obligation to make a general offer under Rule 14 of the Take-over Code.

1.9.4.3 Exemption under Section 3(a) of Appendix 2 of the Take-over Code

Pursuant to Section 3(a) of Appendix 2 of the Take-over Code, Dr. Derek Goh and parties acting in concert with him, including Ms. Victoria Goh, Mr. Sean Goh and Mr. Sean Goh's spouse, if applicable, would be eligible to be exempted from the obligation to make a general offer for the Company under Rule 14 of the Take-over Code as a result of the Company buying back its Shares pursuant to the renewed Share Buyback Mandate, subject to the following conditions:

- (a) the Letter to Shareholders on the Ordinary Resolution to contain advice to the effect that by voting to approve the renewal of the Share Buyback Mandate, Shareholders are waiving their rights to a general offer at the required price from Dr. Derek Goh and parties acting in concert with him, including Ms. Victoria Goh, Mr. Sean Goh and Mr. Sean Goh's spouse, if applicable, who, as a result of the Share Buybacks, would increase their voting rights by more than 1% in any period of six (6) months;
- (b) the Letter to Shareholders discloses the names of Dr. Derek Goh and parties acting in concert with him, including Ms. Victoria Goh, Mr. Sean Goh and Mr. Sean Goh's spouse, if applicable, and their voting rights at the time of the 2019 AGM and after the Company exercises the renewed Share Buyback Mandate in full;
- (c) the Ordinary Resolution is approved by a majority of those Shareholders present and voting at the 2019 AGM on a poll who could not become obliged to make a general offer for the Company as a result of the Company purchasing Shares under the Share Buyback Mandate;

- (d) Dr. Derek Goh and parties acting in concert with him, including Ms. Victoria Goh, Mr. Sean Goh and Mr. Sean Goh's spouse, if applicable, will abstain from voting on the Ordinary Resolution in respect of all their Shares as of the date of the 2019 AGM and/or abstain from making a recommendation to Shareholders to vote in favour of the Ordinary Resolution;
- (e) within seven (7) days after the passing of the Ordinary Resolution, Dr. Derek Goh is to submit to the SIC a duly signed form as prescribed by the SIC; and
- (f) Dr. Derek Goh and parties acting in concert with him, including Ms. Victoria Goh, Mr. Sean Goh and Mr. Sean Goh's spouse, if applicable, together holding between 30% and 50% of the Company's voting rights, have not acquired and will not acquire any Shares between the date on which they know that the announcement of the renewal of the Share Buyback Mandate is imminent and the earlier of:
 - (i) the date on which authority for the renewed Share Buyback Mandate expires; and
 - (ii) the date on which the Company announces it has (a) bought back such number of Shares as authorised by Shareholders at the 2019 AGM, or (b) decided to cease buying back its Shares,

as the case may be, if such acquisitions, taken together with the Share Buybacks under the renewed Share Buyback Mandate, would cause the aggregate voting rights held by Dr. Derek Goh and parties acting in concert with him, including Ms. Victoria Goh, Mr. Sean Goh and Mr. Sean Goh's spouse, if applicable, in the Company to increase by more than 1% in the preceding six (6) months.

If the aggregate voting rights held by Dr. Derek Goh and parties acting in concert with him, including Ms. Victoria Goh, Mr. Sean Goh and Mr. Sean Goh's spouse, if applicable, increase by more than 1% solely as a result of the Company buying back Shares as authorised by the Share Buyback Mandate, and none of them has acquired any Shares during the period as defined in Section 1.9.4.3(f) above, then Dr. Derek Goh and parties acting in concert with him, including Ms. Victoria Goh, Mr. Sean Goh and Mr. Sean Goh's spouse, if applicable, would be eligible for the SIC's exemption from the obligation to make a general offer under Rule 14 of the Take-over Code, or where such exemption had been granted, would continue to enjoy the exemption.

Shareholders should note that by voting in favour of the Ordinary Resolution at the forthcoming 2019 AGM, Shareholders are waiving their rights to a general offer at the required price from Dr. Derek Goh and parties acting in concert with him, including Ms. Victoria Goh, Mr. Sean Goh and Mr. Sean Goh's spouse, if applicable.

One of the conditions for exemption from the obligation to make a general offer under Rule 14 of the Take-over Code is the submission by Dr. Derek Goh to the SIC of a duly signed form as prescribed by the SIC ("**Form 2**"). As at the Latest Practicable Date, Dr. Derek Goh has informed the Company that he will be submitting a Form 2 to the SIC within seven (7) days after the passing of the Ordinary Resolution.

The Company understands that Dr. Derek Goh and parties acting in concert with him, Ms. Victoria Goh, Mr. Sean Goh and Mr. Sean Goh's spouse, have not acquired and will not acquire any Shares between the date on which they know that the announcement of the renewal of the Share Buyback Mandate is imminent and the earlier of:

- (i) the date on which authority for the renewed Share Buyback Mandate expires; and
- (ii) the date on which the Company announces it has (a) bought back such number of Shares as authorised by Shareholders at the 2019 AGM, or (b) decided to cease buying back its Shares,

as the case may be, if such acquisitions, taken together with the Share Buybacks under the renewed Share Buyback Mandate, would cause the aggregate voting rights held by Dr. Derek Goh and parties acting in concert with him, including Ms. Victoria Goh, Mr. Sean Goh and Mr. Sean Goh's spouse, if applicable, in the Company to increase by more than 1% in the preceding six (6) months.

Save as disclosed above, the Directors are not aware of any fact(s) or factor(s) which suggest or imply that any particular person(s) and/or Shareholder(s) are, or may be regarded as, parties acting in concert such that their respective interests in voting Shares should or ought to be consolidated, and consequences under the Take-over Code would ensue as a result of a purchase or acquisition of Shares by the Company pursuant to the renewed Share Buyback Mandate.

Appendix 2 of the Take-over Code requires that the resolution to authorise the renewal of the Share Buyback Mandate be approved by a majority of those Shareholders present and voting at the meeting on a poll who could not become obliged to make a take-over offer under the Take-over Code as a result of the Share Buyback. Accordingly, the Ordinary Resolution is proposed to be taken on a poll, and Dr. Derek Goh, Ms. Victoria Goh, Mr. Sean Goh and Mr. Sean Goh's spouse, if applicable, will abstain, and will procure their/his concert parties (if any) to abstain, from voting on the Ordinary Resolution.

Shareholders who are in any doubt as to whether they would incur any obligations to make a take-over offer as a result of any Share Buyback pursuant to the Share Buyback Mandate are advised to consult their professional advisers and/or the SIC and/or the relevant authorities at the earliest opportunity before they acquire any Shares during the period when the Share Buyback Mandate is in force.

1.10 Reporting requirements

Within 30 days of the passing of a Shareholders' resolution to approve the proposed Share Buyback Mandate, the Directors shall lodge a copy of the relevant Shareholders' resolution with the Registrar of Companies (the "Registrar").

The Directors shall lodge with the Registrar a notice of share purchase within 30 days of a share purchase. Such notification shall include the date of the purchase, the number of Shares purchased by the Company, the number of Shares cancelled, the number of Shares held as treasury shares, the Company's issued share capital before and after the purchase, the amount of consideration paid by the Company for the purchase, whether the Shares were purchased out of the profits or the capital of the Company, and such other particulars as may be required in the prescribed form.

Within 30 days of the cancellation or disposal of treasury shares in accordance with the provisions of the Companies Act, the Directors shall lodge with the Registrar the notice of cancellation or disposal of treasury shares in the prescribed form.

Rule 886 of the Listing Manual specifies that a listed company shall report all purchases or acquisitions of its shares to the SGX-ST not later than 9.00 a.m. (a) in the case of a Market Purchase, on the Market Day following the day of purchase or acquisition of any of its shares; and (b) in the case of an Off-Market Purchase under an equal access scheme, on the second Market Day after the close of acceptances of the offer. Such announcement currently requires the inclusion of details of, *inter alia*, the total number of shares purchased or acquired, the purchase price per share or the highest and lowest prices paid for such shares, as applicable. Such announcement will be made in the form prescribed by the Listing Manual.

1.11 No purchases during price-sensitive developments

While the Listing Manual does not expressly prohibit any purchase or acquisition of shares by a listed company during any particular time or times, because the listed company would be regarded as an "insider" in relation to any proposed purchase or acquisition of its issued shares, the Company will not undertake any purchase or acquisition of Shares pursuant to the proposed Share Buyback Mandate at any time after a price sensitive development has occurred or has been the subject of a decision until the price sensitive information has been publicly announced. In particular, in line with the best practices on dealings in securities under Rule 1207(19) of the Listing Manual, the Company will not purchase or acquire any Shares during the period commencing (i) two (2) weeks before the announcement of the Company's financial statements for each of the first three (3) quarters of its financial year, and (ii) one (1) month before the announcement of the Company's full-year financial statements.

1.12 Shares purchased by the Company in the 12 months preceding the Latest Practicable Date

The Company has not purchased or acquired any Shares in the 12 months preceding the Latest Practicable Date.

2. Directors' and Substantial Shareholders' Interests

As at the Latest Practicable Date, the interests of the Directors in the Shares (as extracted from the Register of Directors' shareholdings), and the interests of the Substantial Shareholders in the Shares (as extracted from the Register of Substantial Shareholders) are as follows:

	Number of Shares					
	Direct Interest ⁽¹⁾	% ⁽²⁾	Deemed Interest	% ⁽²⁾	Total Interest	% ⁽²⁾
Directors						
Derek Goh Bak Heng	355,090,070	39.64	50,000	0.01	355,140,070	39.64
Teo Ser Luck	—	—	—	—	—	—
Tan Lye Heng Paul	350,000	0.04	—	—	350,000	0.04
Ravindran s/o Ramasamy	—	—	—	—	—	—
Ng Cher Yan	150,000	0.02	—	—	150,000	0.02
Substantial Shareholder						
Goi Seng Hui ⁽³⁾	119,632,438	13.35	24,862,800	2.78	144,495,238	16.13

Notes:

⁽¹⁾ Including Shares held under nominees accounts.

⁽²⁾ "%" is based on 895,841,914 issued Shares (excluding treasury shares and subsidiary holdings) as at the Latest Practicable Date.

⁽³⁾ Goi Seng Hui is deemed interested in the 24,862,800 shares held by Tee Yih Jia Food Manufacturing Pte Ltd by virtue of Section 7 of the Companies Act.

Save as disclosed above, none of the Directors and Substantial Shareholders or their respective Associates has any interest, direct or indirect, in the Share Buyback Mandate.

3. Action to be taken by Shareholders

The 2019 AGM will be held at 8 Ubi View, #05-01, Serial System Building, Singapore 408554 on 29 April 2019 at 11.00 a.m. for the purpose of, *inter alia*, considering and, if thought fit, passing, with or without modification, the Ordinary Resolution as set out in the notice of the 2019 AGM.

Shareholders who are unable to attend the 2019 AGM and who wish to appoint a proxy or proxies to attend and vote on their behalf should complete, sign and return the proxy form attached to the notice of the 2019 AGM enclosed with the Annual Report 2018 in accordance with the instructions printed therein as soon as possible and, in any event, so as to arrive at the registered office of the Company at 8 Ubi View, #05-01, Serial System Building, Singapore 408554, not later than 72 hours before the time fixed for the 2019 AGM. The appointment of a proxy by a Shareholder does not preclude him from attending and voting in person at the 2019 AGM if he so wishes in place of the proxy if he finds that he is able to do so.

A Depositor shall not be regarded as a member of the Company entitled to attend the 2019 AGM and to speak and vote thereat unless his name appears on the Depository Register maintained by CDP pursuant to Part IIIA of the Securities and Futures Act at least 72 hours before the 2019 AGM.

4. Directors' recommendations

Save that Dr. Derek Goh has abstained from making any recommendation in respect of the proposed renewal of the Share Buyback Mandate, the Directors, having carefully considered, *inter alia*, the terms and rationale of the Share Buyback Mandate, are of the opinion that the proposed renewal of the Share Buyback Mandate is in the best interests of the Company. Accordingly, they recommend that the Shareholders vote in favour of the Ordinary Resolution relating to the proposed renewal of the Share Buyback Mandate to be proposed at the 2019 AGM.

5. Abstention from voting

In respect of the proposed renewal of the Share Buyback Mandate, Dr. Derek Goh, and Ms. Victoria Goh, Mr. Sean Goh and Mr. Sean Goh's spouse, will abstain, and will procure their concert parties (if any) to abstain, from voting in respect of their holdings of Shares on the Ordinary Resolution, and will not accept any appointment as proxies or otherwise for voting on the Ordinary Resolution unless specific instructions have been given in the proxy form(s) on how the votes are to be cast in respect of the Ordinary Resolution.

6. Directors' responsibility statement

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

7. Documents for inspection

A copy of the following documents may be inspected at the registered office of the Company at 8 Ubi View, #05-01, Serial System Building, Singapore 408554, during normal business hours from the date of this Appendix up to and including the date of the 2019 AGM:

- (a) the Annual Report 2018; and
- (b) the Constitution.

Yours faithfully
For and on behalf of the Board of Directors of
SERIAL SYSTEM LTD

Dr. Derek Goh Bak Heng
Executive Chairman and Group CEO



SERIAL
新曄集團

SERIAL SYSTEM LTD
Company Registration No.199202071D
(Incorporated in the Republic of Singapore)

PROXY FORM ANNUAL GENERAL MEETING

Important

1. Relevant intermediaries as defined in Section 181 of the Companies Act, Cap 50 of Singapore, may appoint more than two proxies to attend, speak and vote at the Annual General Meeting.
2. For CPF/SRS investors who have used their CPF/SRS monies to buy Serial System Ltd shares, this Proxy Form is not valid for use and shall be ineffective for all intents and purposes if used or purported to be used by them. CPF/SRS investors should contact their respective Agent Banks/SRS Operators if they have any queries regarding their appointment as proxies.

Personal data privacy

By submitting an instrument appointing a proxy(ies) and/or representative(s), the member accepts and agrees to the personal data privacy terms set out in the Notice of Annual General Meeting dated 8 April 2019.

I/We*, _____ (Name)

of _____ (Address)

being a Member/Members* of Serial System Ltd (the "Company"), hereby appoint:

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

and/or*

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

or failing him/her/them*, the Chairman of the meeting as my/our* proxy/proxies* to vote for me/us* on my/our behalf* at the Annual General Meeting of the Company, to be held on Monday, 29 April 2019 at 11.00 a.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 Annual General Meeting as indicated hereunder. If no specified direction as to voting is given or in the event of any other matter arising at the Annual General Meeting, my/our* proxy/proxies* will vote or abstain from voting at his/her/their* discretion.

No.	Resolutions relating to:	For	Against
	Ordinary Business		
Ordinary Resolution 1	Adoption of Audited Financial Statements and Directors' Statement and Auditor's report for the financial year ended 31 December 2018		
Ordinary Resolution 2	Declaration of Final Cash Dividend as recommended by the Directors		
Ordinary Resolution 3	Approval of payment of Directors' Fees for the financial year ended 31 December 2018		
Ordinary Resolution 4	Approval of payment of Directors' Fees for the financial year ending 31 December 2019 payable quarterly in arrears		
Ordinary Resolution 5	Re-election of Mr. Ravindran s/o Ramasamy as Director of the Company		
Ordinary Resolution 6	Re-election of Mr. Ng Cher Yan as Director of the Company		
Ordinary Resolution 7	Re-appointment of Moore Stephens LLP as Auditors and authorisation for the Directors to fix their remuneration		
	Special Business		
Ordinary Resolution 8	Approval of Share Issue Mandate		
Ordinary Resolution 9	Authority to offer and grant Share Options and to allot and issue Shares under the Serial System Employee Share Option Scheme 2014		
Ordinary Resolution 10	Approval of renewal of the Share Buyback Mandate		

Note: Voting will be conducted by poll. If you wish to exercise all your votes "For" or "Against", please tick (✓) within the box provided. Alternatively, please indicate the number of votes as appropriate.

Dated this _____ day of _____ 2019

Total number of Shares in:	No. of Shares
CDP Register	
Register of Members	

Signature(s) of Member(s) / Common Seal of Corporate Shareholder

* Delete Accordingly

IMPORTANT: Please read Notes on the reverse page before completing this Form



Explanatory Notes For Proxy Form

Notes:

1. Please insert the total number of Shares held by you. If you have Shares entered against your name in the Depository Register (as defined in Section 130A of the Companies Act, Chapter 50 of Singapore) you should insert that number of Shares. If you have Shares registered in your name in the Register of Members of the Company, you should insert that number of Shares. If you have Shares entered against your name in the Depository Register and Shares registered in your name in the Register of Members, you should insert the aggregate number of Shares entered against your name in the Depository Register and registered in your name in the Register of Members. If no number is inserted, the instrument appointing a proxy or proxies shall be deemed to relate to all the Shares held by you.
2.
 - (a) A member who is not a relevant intermediary is entitled to appoint not more than two proxies to attend, speak and vote at the Annual General Meeting. Where such member's proxy form appoints more than one proxy, the proportion of the shareholding concerned to be represented by each proxy shall be specified in the proxy form.
 - (b) A member who is a relevant intermediary is entitled to appoint more than two proxies to attend, speak and vote at the Annual General Meeting, but each proxy must be appointed to exercise the rights attached to a different share or shares held by such member. Where such member's proxy form appoints more than two proxies, the number and class of shares in relation to which each proxy has been appointed shall be specified in the proxy form.

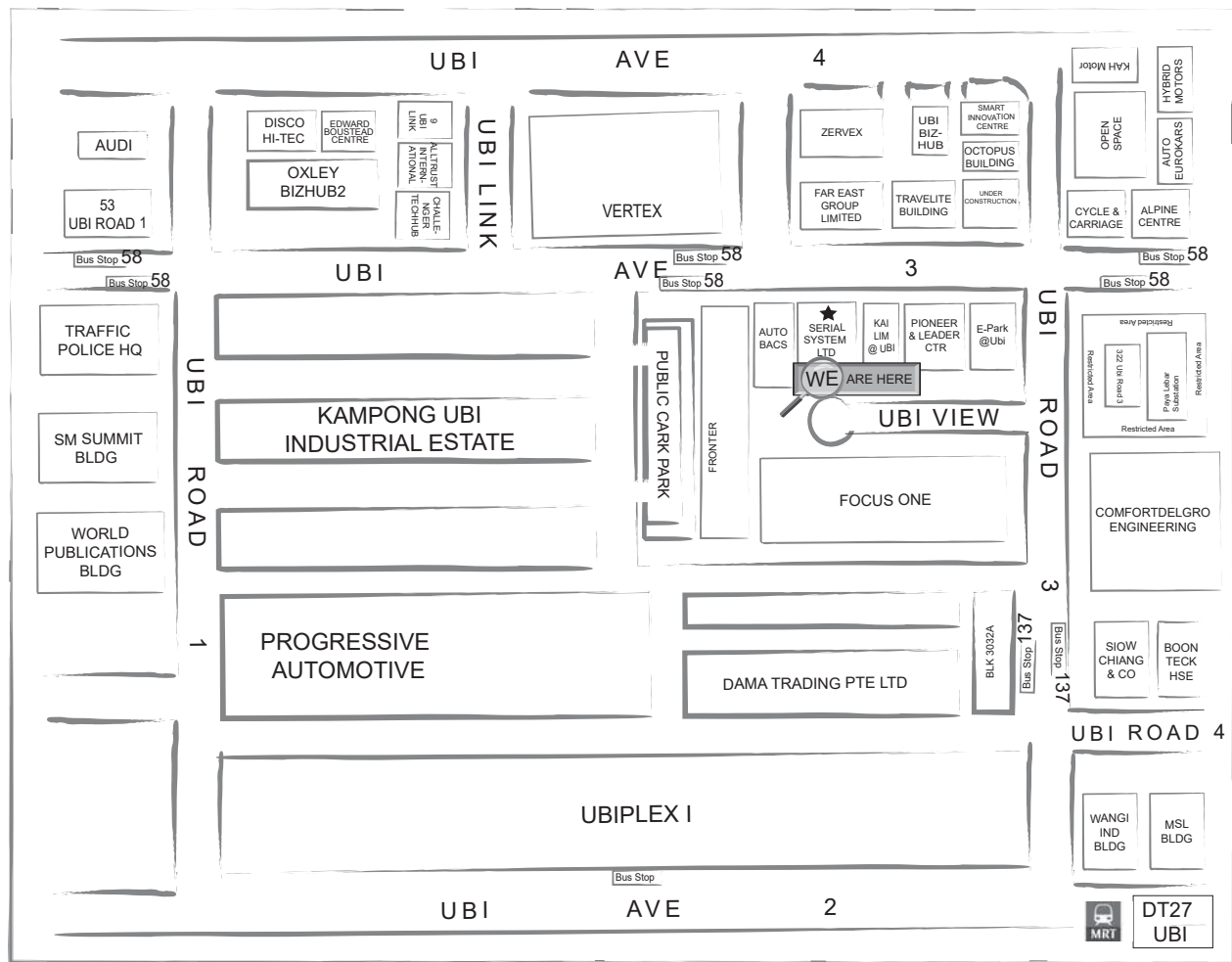
"Relevant intermediary" has the same meaning ascribed to it in Section 181 of the Companies Act, Chapter 50 of Singapore.

3. A proxy need not be a member of the Company.
4. This instrument appointing a proxy or proxies must be deposited at the registered office of the Company at 8 Ubi View #05-01 Serial System Building Singapore 408554, not less than seventy-two (72) hours before the time appointed for holding the Annual General Meeting. Completion and return of the instrument appointing a proxy or proxies shall not preclude a member from attending and voting at the Annual General Meeting. In such event, the relevant instrument appointing a proxy or proxies will be deemed to be revoked.
5. The instrument appointing a proxy or proxies must be under the hand of the appointor or of his attorney duly authorised in writing. 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. 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 any officer duly authorized or its attorney.
6. A corporation which is a member may authorise by resolution of its directors or other governing body such person as it thinks fit to act as its representative at the Annual General Meeting, in accordance with Section 179 of the Companies Act, Chapter 50 of Singapore.
7. The Company shall be entitled to reject an instrument appointing a proxy or proxies which is incomplete, improperly completed, illegible or where the true intentions of the appointer are not ascertainable from the instructions of the appointer specified on the instrument appointing a proxy or proxies (including any related attachment). In addition, in the case of shares entered in the Depository Register, the Company may reject an instrument appointing a proxy or proxies if the member, being the appointer, is not shown to have shares entered against his name in the Depository Register as at seventy-two (72) hours before the time appointed for holding the Annual General Meeting, as certified by The Central Depository (Pte) Limited to the Company.
8. Investors who buy Shares in the Company using CPF monies and/or SRS monies (as may be applicable) ("CPF/SRS Investors") may attend and cast their vote at the Annual General Meeting in person. CPF/SRS Investors who are unable to attend the Annual General Meeting but would like to vote, may inform CPF and/or SRS Approved Nominees to appoint the Chairman of the Annual General Meeting to act as their proxy, in which case, the CPF/SRS Investors shall be precluded from attending the Annual General Meeting.

Personal data privacy:

By submitting an instrument appointing a proxy(ies) and/or representative(s) to attend, speak and vote at the Annual General Meeting and/or any adjournment thereof, a member of the Company (i) consents to the collection, use and disclosure of the member's personal data by the Company (or its agents) for the purpose of the processing and administration by the Company (or its agents) of proxies and representatives appointed for the Annual General Meeting (including any adjournment thereof) and the preparation and compilation of the attendance lists, minutes and other documents relating to the Annual General Meeting (including any adjournment thereof), and in order for the Company (or its agents) to comply with any applicable laws, listing rules, regulations and/or guidelines (collectively, the "Purposes"), (ii) warrants that where the member discloses the personal data of the member's proxy(ies) and/or representative(s) to the Company (or its agents), the member has obtained the prior consent of such proxy(ies) and/or representative(s) for the collection, use and disclosure by the Company (or its agents) of the personal data of such proxy(ies) and/or representative(s) for the Purposes, and (iii) agrees that the member will indemnify the Company in respect of any penalties, liabilities, claims, demands, losses and damages as a result of the member's breach of warranty.

Location Map



Public Transportation

SBS 58 - Bishan - Pasir Ris

SBS 137 - Sims Place Terminal - Upper East Coast

Terminal

MRT - Ubi Station

SINGAPORE
CHINA
HONG KONG
INDIA
INDONESIA
MALAYSIA
PHILIPPINES
SOUTH KOREA
TAIWAN
THAILAND
VIETNAM



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