

CIRCULAR DATED 6 APRIL 2018

THIS CIRCULAR IS IMPORTANT AND REQUIRES YOUR IMMEDIATE ATTENTION. PLEASE READ IT CAREFULLY.

IF YOU ARE IN ANY DOUBT AS TO THE ACTION YOU SHOULD TAKE, YOU SHOULD CONSULT YOUR STOCKBROKER, BANK MANAGER, SOLICITOR, ACCOUNTANT OR OTHER PROFESSIONAL ADVISER IMMEDIATELY.

If you have sold or transferred all your shares in the capital of Serial System Ltd (the “**Company**”), you should immediately forward this circular (this “**Circular**”), the Notice of Extraordinary General Meeting and the accompanying Proxy Form to the purchaser or transferee or to the bank, stockbroker or agent through whom the sale or transfer was effected for onward transmission to the purchaser or transferee.

The Singapore Exchange Securities Trading Limited (the “**SGX-ST**”) assumes no responsibility for the contents of this Circular, including the correctness of any of the statements or opinions made, or reports contained in this Circular.

This Circular does not constitute, and is not intended to be, an offer or an initial public offering or a notice, circular or advertisement calling or drawing attention to an offer or an initial public offering to the public to subscribe for and/or purchase any shares or a statement intended to induce any person to apply for any shares in the Proposed SEHK Listing (as defined herein).



CIRCULAR TO SHAREHOLDERS

IN RELATION TO

- (1) THE PROPOSED SPIN-OFF AND LISTING OF SERIAL MICROELECTRONICS (HK) LIMITED (“SMHK”) AND ITS SUBSIDIARIES AND ASSOCIATED COMPANY ON THE MAIN BOARD OF THE STOCK EXCHANGE OF HONG KONG LIMITED;**
- (2) THE PROPOSED DILUTION OF THE COMPANY’S EQUITY INTEREST IN SMHK, A PRINCIPAL SUBSIDIARY, BY 20.0% OR MORE, WITH THE COMPANY RETAINING A MAJORITY INTEREST IN SMHK; AND**
- (3) THE PROPOSED TRANSFER OF THE LISTING OF THE COMPANY FROM THE MAINBOARD OF THE SINGAPORE EXCHANGE SECURITIES TRADING LIMITED TO CATALIST.**

IMPORTANT DATES AND TIMES

Last date and time for lodgement of Proxy Form : 25 April 2018 at 12.00 p.m.

Date and time of Extraordinary General Meeting : 28 April 2018 at 12.00 p.m. (or as soon thereafter following the conclusion or adjournment of the Annual General Meeting of the Company to be held at 11.00 a.m. on the same day and at the same place)

Place of Extraordinary General Meeting : 8 Ubi View #05-01 Serial System Building, Singapore 408554

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DEFINITIONS

In this Circular, the following definitions apply throughout unless the context otherwise requires or otherwise stated:

Companies, Organisations and Agencies

“CDP”	:	The Central Depository (Pte) Limited
“Company”	:	Serial System Ltd
“Continuing Sponsor” or “Provenance Capital”	:	Provenance Capital Pte. Ltd.
“CPF”	:	The Central Provident Fund
“Group”	:	The Company and its subsidiaries and associated companies collectively
“Listco”	:	The listing entity of the Spin-Off Group for the purposes of the Proposed SEHK Listing, which will either be SMHK or a newly incorporated holding company of SMHK
“SEHK”	:	The Stock Exchange of Hong Kong Limited
“SFC”	:	Securities and Futures Commission of Hong Kong
“SGX-ST”	:	Singapore Exchange Securities Trading Limited
“SMHK”	:	Serial Microelectronics (HK) Limited, a 91.0% subsidiary of SMPL
“SMPL”	:	Serial Microelectronics Pte. Ltd., a wholly-owned subsidiary of the Company
“Spin-Off Group”	:	SMHK and its subsidiaries and associated company collectively. Please refer to sections 2.3.2 and 2.3.3 of this Circular for further information on the Spin-Off Group

General

“AIP”	:	Has the meaning ascribed to it in section 5.1 of this Circular
“Board”	:	The board of Directors
“Catalist”	:	The Catalist board of the SGX-ST, being the sponsor-supervised listing platform of the SGX-ST
“Catalist Rules”	:	The SGX-ST Listing Manual Section B: Rules of Catalist, as may be amended, modified or supplemented from time to time
“Circular”	:	This circular dated 6 April 2018
“Companies Act”	:	The Companies Act (Chapter 50) of Singapore, as amended, modified or supplemented from time to time
“Consumer Products Distribution Business”	:	The business of distributing consumer and electronic products such as information technology, mobile, photographic and timepiece products, printer accessories like ink and toner cartridges, household appliances and lifestyle goods, providing managed print services and distribution of copier and printers

DEFINITIONS

“Controlling Shareholder”	:	A person who: (a) holds directly or indirectly 15.0% 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
“CPFIS”	:	Central Provident Fund Investment Scheme
“Directors”	:	The directors of the Company as at the Latest Practicable Date
“EGM”	:	The extraordinary general meeting of the Company to be held at <u>8</u> Ubi View #05-01 Serial System Building, Singapore 408554 on 28 April 2018 at 12.00 p.m. (or as soon thereafter following the conclusion or adjournment of the Annual General Meeting of the Company to be held at 11.00 a.m. on the same day and at the same place), notice of which is set out on pages 26 to 28 of this Circular
“electronic component”	:	A component that amplifies or controls electrical voltage or currents without mechanical or other nonelectrical command, or switches currents or voltages without mechanical switches
“Electronic Components Distribution Business”	:	The business of distributing electronic components and providing products, services and solutions to users of electronic components, including, amongst others, trading companies
“EPS”	:	Earnings per Share
“First Lock-Up Period”	:	Has the meaning ascribed to it in section 2.6 of this Circular
“FY”	:	Financial year ended 31 December
“Group CEO”	:	Chief Executive Officer of the Group as at the Latest Practicable Date
“Hong Kong”	:	The Hong Kong Special Administrative Region of the People’s Republic of China
“IPO Price”	:	The price per Listco Share at which the relevant Listco Shares will be offered to the public in connection with the Proposed SEHK Listing
“Latest Practicable Date”	:	28 March 2018, being the latest practicable date prior to the printing of this Circular
“Listco Board”	:	The board of directors of the Listco
“Listco Shares”	:	Ordinary shares in the capital of the Listco
“Listing Document”	:	The listing document to be issued by the Listco in conjunction with the Proposed SEHK Listing
“Mainboard”	:	The Mainboard of the SGX-ST

DEFINITIONS

“Mainboard Admission Criteria”	:	Has the meaning ascribed to it in section 5.2.1 of this Circular
“Mainboard Rules”	:	The SGX-ST Listing Manual Section A: Mainboard Rules, as may be amended, modified or supplemented from time to time
“majority interest”	:	Not less than 51.0%
“Mr. Ho”	:	Mr. Lawrence Ho Yung, President of SMHK
“No Objection Decision”	:	Has the meaning ascribed to it in section 2.1 of this Circular
“Notice of EGM”	:	The notice of EGM, which is set out on pages 26 to 28 of this Circular
“NTA”	:	Net tangible assets
“Ordinary Resolutions”	:	The ordinary resolutions set out in the Notice of EGM, being Ordinary Resolution 1 on the Proposed Spin-Off and the Proposed SEHK Listing and Ordinary Resolution 2 on the Proposed Dilution of Equity Interest in SMHK
“Other Group Businesses”	:	The Group’s businesses excluding the Electronic Components Distribution Business and the Consumer Products Distribution Business, comprising investment holding, rental of properties, hospitality and healthcare solutions, assembly and distribution of medical devices, manufacturing and sale of electronic components with focus on passive components, project financing, provision of laundry services in the hospitality industry, food manufacturer and caterer and distribution and manufacturing processing , trade and export of durian and its related products
“PRC” or “China”	:	People’s Republic of China, excluding Hong Kong, Macau and Taiwan for the purposes of this Circular
“Proposed Listing Transfer”	:	The proposed transfer of the Company’s listing from the Mainboard to Catalist, details of which are set out in section 5 of this Circular
“Proposed Dilution of Equity Interest in SMHK”	:	The proposed dilution of the Company’s equity interest in SMHK, a principal subsidiary of the Company, by 20.0% or more, with the Company retaining a majority interest in SMHK, pursuant to the Proposed SEHK Listing. Further details of which are set out in section 3 of this Circular
“Proposed SEHK Listing”	:	The proposed listing of the Listco on the Main Board of the SEHK, details of which are set out in section 2 of this Circular
“Proposed Spin-Off”	:	The proposed spin-off of SMHK and its subsidiaries and associated company via the Proposed SEHK Listing
“Proposed Transactions”	:	The Proposed Spin-Off, the Proposed Dilution of Equity Interest in SMHK and the Proposed Listing Transfer collectively
“Retained Electronic Components Distribution Business”	:	Has the meaning ascribed to it in section 2.3.1 of this Circular
“SEHK Listing Rules”	:	The Rules Governing the Listing of Securities on the SEHK, as may be amended, modified or supplemented from time to time

DEFINITIONS

“ SESDAQ ”	:	Stock Exchange of Singapore Dealing and Automated Quotation (now known as Catalist)
“ SFA ”	:	Securities and Futures Act (Chapter 289) of Singapore, as amended, modified or supplemented from time to time
“ SGXNET ”	:	The SGXNET Corporate Announcement System
“ Shareholders ”	:	Persons who are registered holders of Shares in the Register of Members of the Company except where the registered holder is CDP, the term “ Shareholders ” shall, where the context admits, mean the Depositors in the Depository Register maintained by CDP and into whose securities accounts those Shares are credited
“ Shares ”	:	Ordinary shares in the capital of the Company
“ SMHK Shares ”	:	Ordinary shares in the capital of SMHK
“ Special Resolution ”	:	The special resolution set out in the Notice of EGM, being Special Resolution 1 on the Proposed Listing Transfer
“ Substantial Shareholder ”	:	A person who has an interest or interests in one or more voting Shares, and the votes attached to that Share, or those Shares, is not less than 5.0% of the total votes attached to all the voting Shares

Currencies and Others

“ HK\$ ”	:	Hong Kong dollars, being the lawful currency of Hong Kong
“ US\$ ” and “ US cents ”	:	United States dollars and cents, being the lawful currency of the United States of America
“ % ”	:	Per centum or percentage

The terms “**Depositor**” and “**Depository Register**” shall have the respective meanings ascribed to them in Section 81SF of the SFA. The term “**subsidiary**” shall have the meaning ascribed to it in Section 5 of the Companies Act.

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.

Various names with Chinese characters have been translated into English names. These translations are provided solely for convenience. The English translations may not have been registered with the relevant Chinese authorities and should not be construed as representations that the English names actually represent the names in Chinese characters.

Any reference to a time of day and date in this Circular shall be a reference to Singapore time, unless otherwise stated.

Any reference in this Circular to any enactment is a reference to that enactment as for the time being amended or re-enacted. Any word defined under the Companies Act, the Mainboard Rules, the Catalist Rules or any modification thereof and used in this Circular shall, where applicable, have the meaning ascribed to it under the Companies Act, the Mainboard Rules, the Catalist Rules or any modification thereof, as the case may be, unless otherwise provided.

DEFINITIONS

The headings in this Circular are inserted for convenience only and shall be ignored in construing this Circular.

In this Circular, any discrepancies between the listed figures and the totals thereof are due to rounding. Accordingly, figures shown as totals in this Circular may not be an arithmetic aggregation of the figures that precede them.

Unless otherwise stated, the exchange rate of HK\$1: US\$0.1282 has been used in this Circular.

LETTER TO SHAREHOLDERS

SERIAL SYSTEM LTD

(Incorporated in the Republic of Singapore)
(Company Registration Number: 199202071D)

Directors

Dr. Derek Goh Bak Heng (Executive Chairman & 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)
Mr. Goi Kok Neng Ben (Non-Executive Director)

Registered Office

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

6 April 2018

To: The Shareholders of Serial System Ltd

Dear Sir/Madam

- (1) **THE PROPOSED SPIN-OFF OF SERIAL MICROELECTRONICS (HK) LIMITED (“SMHK”) AND ITS SUBSIDIARIES AND ASSOCIATED COMPANY ON THE MAINBOARD OF THE STOCK EXCHANGE OF HONG KONG LIMITED;**
- (2) **THE PROPOSED DILUTION OF THE COMPANY’S EQUITY INTEREST IN SMHK, A PRINCIPAL SUBSIDIARY, BY 20.0% OR MORE, WITH THE COMPANY RETAINING A MAJORITY INTEREST IN SMHK; AND**
- (3) **THE PROPOSED TRANSFER OF THE LISTING OF THE COMPANY FROM THE MAINBOARD OF THE SINGAPORE EXCHANGE SECURITIES TRADING LIMITED TO CATALIST.**

1. INTRODUCTION

1.1 Background

The Company is seeking Shareholders’ approval for the following:

- (a) the proposed spin-off of SMHK and its subsidiaries and associated company (the **“Proposed Spin-Off”**) via the proposed listing of the Listco on the Main Board of the SEHK (the **“Proposed SEHK Listing”**);
- (b) the proposed dilution of the Company’s equity interest in SMHK, a principal subsidiary of the Company, by 20.0% or more, with the Company retaining a majority interest in SMHK, pursuant to the Proposed SEHK Listing (the **“Proposed Dilution of Equity Interest in SMHK”**); and
- (c) the proposed transfer of the Company’s listing from the Mainboard to Catalist (the **“Proposed Listing Transfer”**),

(collectively, the **“Proposed Transactions”**).

1.2 Purpose of this Circular

The purpose of this Circular is to provide Shareholders with information relating to and the rationale for the Proposed Transactions for which Shareholders’ approval will be sought at the EGM. Shareholders’ approval for the Proposed Transactions shall be sought by way of the Ordinary Resolutions, except for the Proposed Listing Transfer, for which approval shall be sought by way of the Special Resolution.

LETTER TO SHAREHOLDERS

1.3 Inter-Conditionality of Resolutions

Shareholders are advised that each of the resolutions relating to the Proposed Spin-Off and the Proposed SEHK Listing (Ordinary Resolution 1), the Proposed Dilution of Equity Interest in SMHK (Ordinary Resolution 2) and the Proposed Listing Transfer (Special Resolution 1) are inter-conditional. This means that if any of Ordinary Resolution 1, Ordinary Resolution 2 or Special Resolution 1 are not approved, none of Ordinary Resolution 1, Ordinary Resolution 2 and Special Resolution 1 will be duly passed.

1.4 Cautionary Statement

The Proposed Spin-Off and the Proposed SEHK Listing are subject to, among others things, requisite approvals from all relevant regulatory authorities, including the SEHK, market conditions prevailing at the relevant time, and Shareholders' approval for the Proposed Transactions set out in the Notice of EGM. The Board wishes to caution Shareholders that there is no certainty or assurance as at the date of this Circular that the relevant approvals will be obtained and that the Proposed Transactions will eventually materialise.

This Circular does not constitute, and is not intended to be, an offer or an initial public offering or a notice, circular or advertisement calling or drawing attention to an offer or an initial public offering to the public to subscribe for and/or purchase any shares or a statement intended to induce any person to apply for any shares in the Proposed SEHK Listing.

Further, the Company reserves the right to not proceed with the Proposed Transactions if, after assessing various factors, including the prevailing general economic and capital market conditions and any other relevant factors, the Company does not consider the Proposed Transactions to be in the best interests of the Company and/or if the requisite approval(s) required for the Proposed Transactions have not been or cannot practicably be obtained. The Company will make the relevant announcements as and when required and as and when material developments arise in respect of the Proposed Transactions.

Certain descriptions and disclosures in respect of the Spin-Off Group and its business have been included in this Circular. If and when the Listing Document is issued by the Listco, it should be noted that the information in relation to the Listco and the Spin-Off Group and its business set out in the Listing Document will be more comprehensive than that set out in this Circular, as it will be prepared in compliance with the SEHK Listing Rules and will contain prescribed information and presentation of information, and may also take into account comments from the SEHK and the SFC and further developments following the Latest Practicable Date.

2. THE PROPOSED SPIN-OFF AND THE PROPOSED SEHK LISTING

2.1 Background

The Company is proposing to spin-off and list SMHK and its subsidiaries and associated company on the Main Board of the SEHK.

On 22 June 2017, the Company announced that the SGX-ST had advised that it had in-principle no objections (the **"No Objection Decision"**) to the proposed spin-off of SMHK for a listing on the Main Board of the SEHK, subject to the following conditions:

- (a) compliance with the listing rules of the SGX-ST;
- (b) the Proposed Listing Transfer being approved by the SGX-ST and Shareholders;

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- (c) Shareholders' approval for the Proposed Spin-Off being obtained at the EGM;
- (d) confirmation from the Continuing Sponsor that the Proposed Spin-Off is in compliance with Rule 406(7) of the Catalist Rules. Please refer to section 2.8 of this Circular for further details; and
- (e) disclosure in this Circular of the basis for the Board's assessment that the Proposed SpinOff would bring tangible benefits to Shareholders. Please refer to section 2.7 of this Circular for further details.

The SGX-ST reserves the right to vary, amend or withdraw the No Objection Decision as it deems fit, and the No Objection Decision is subject to changes in the SGX-ST's policies.

Since the Company's receipt of the No Objection Decision, preparatory work for the Proposed Spin-Off and the Proposed SEHK Listing has commenced. As at the Latest Practicable Date, the Listco is preparing an application to the SEHK for the listing of and permission to deal in all of the Listco Shares in issue and the new Listco Shares that may be allotted and issued pursuant to the Proposed SEHK Listing on the Main Board of the SEHK. As at the Latest Practicable Date, the SEHK has not granted its approval for the Proposed SEHK Listing.

2.2 Information on the Proposed SEHK Listing

To meet the requirements for a listing on the SEHK under the SEHK Listing Rules, the Listco will be required to issue such number of new shares to achieve a public float of not less than 25.0% of the total number of issued shares immediately after the Proposed SEHK Listing. While the Company's indirect shareholding interest in SMHK will be diluted pursuant to the Proposed SEHK Listing, the Company intends to hold not less than 51.0% of the issued share capital of SMHK and for SMHK to remain as a subsidiary of the Company immediately after the completion of the Proposed SEHK Listing.

The actual level of the dilution of the Company's indirect shareholding interest in the issued share capital of SMHK pursuant to the Proposed SEHK Listing will depend on, among other things, the IPO Price and the total number of Listco Shares issued in connection with the Proposed SEHK Listing. As at the Latest Practicable Date, the offer structure has not been finalised and the IPO Price, the number of Listco Shares to be issued and the amount of proceeds to be raised from the Proposed SEHK Listing have not been determined, and will be subject to, among other things, the market conditions prevailing at the time of the Proposed SEHK Listing.

As at the Latest Practicable Date, there are no plans for specific use of the proceeds raised by the Listco from the issue of new Listco Shares pursuant to the Proposed SEHK Listing, other than for the working capital for future growth and expansion of the Spin-Off Group. Details on the proposed use of the proceeds raised by the Listco will be contained in the prospectus to be issued in connection with the Proposed SEHK Listing.

Please refer to section 4 of this Circular for the illustrative *pro forma* financial effects of the Proposed Spin-Off and the Proposed SEHK Listing.

2.3 Information on the Group and the Spin-Off Group

2.3.1 Overview of the Group

The Company was listed on SESDAQ in 1997 and transferred to the Mainboard in 2000.

As at the Latest Practicable Date, the Company, through its subsidiaries and associated companies, is principally engaged in the following three (3) main businesses:

- (a) the Electronic Components Distribution Business, which comprises the distribution of electronic components and the provision of products, services and solutions to users of electronic components, including, amongst others, trading companies;

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- (b) the Consumer Products Distribution Business, which comprises the distribution of consumer and electronic products such as information technology, mobile, photographic and timepiece products, printer accessories like ink and toner cartridges, household appliances and lifestyle goods, providing managed print services and distribution of copier and printers; and
- (c) the Other Group Businesses, which comprises investment holding, rental of properties, hospitality and healthcare solutions, assembly and distribution of medical devices, manufacturing and sale of electronic components with focus on passive components, project financing, provision of laundry services in the hospitality industry, food manufacturer and caterer and manufacturing processing, trade and export of durian and its related products.

Following completion of the Proposed Spin-Off, the Group (excluding the Spin-Off Group) will continue to be engaged in the Electronic Components Distribution Business in territories other than Hong Kong and the PRC, namely, in Singapore, India, Indonesia, Malaysia, the Philippines, South Korea, Taiwan, Thailand and Vietnam (the “**Retained Electronic Components Distribution Business**”), the Consumer Products Distribution Business, and the Other Group Businesses.

For illustrative purposes only, the financial information of the businesses of the Group (excluding the Spin-Off Group) based on the audited consolidated financial statements of the Group for FY2016 and the audited consolidated financial statements of the Group for FY2017 is as follows:

US\$'000	FY2016	FY2017
Revenue	549,813	444,770
Net Profit / (Loss) before tax	(2,284)	789
Working Capital	14,026	13,309
Net Operating Cash Inflow	24,496	4,508

Based on the audited consolidated financial statements of the Group for FY2017, the businesses of the Group (excluding the Spin-Off Group) generated a revenue of approximately US\$444.8 million, representing approximately 29.8% of the Group's total revenue (excluding inter-company sales) for FY2017. The working capital of the businesses of the Group (excluding the Spin-Off Group) of approximately US\$13.3 million represented 18.7% of the Group's total working capital for FY2017.

Shareholders are to note that the financial information of the businesses of the Group (excluding the Spin-Off Group) set out above is purely for illustrative purposes only. As the Company will hold a majority interest in the Spin-Off Group upon completion of the Proposed SpinOff and the Proposed SEHK Listing, SMHK will continue to be a subsidiary of the Company and the Company will continue to consolidate the financial results of SMHK.

2.3.2 Overview of the Spin-Off Group

As at the Latest Practicable Date, SMHK is the holding company of the Spin-Off Group. SMHK is a private company incorporated in Hong Kong. As at the Latest Practicable Date, SMHK has an issued and paid-up share capital of HKD60,000,000 comprising 60,000,000 SMHK Shares, and of which 91.0% is held by the Company through its wholly-owned subsidiary, SMPL, and the remaining 9.0% of the SMHK Shares is owned by Mr. Ho, President of SMHK.

In connection with, and prior to the Proposed SEHK Listing, SMHK may undertake a reorganisation of the Spin-Off Group, whereby a newly incorporated holding company will acquire and hold all the SMHK Shares, and serve as the listing entity of the Spin-Off Group for the purposes of the Proposed SEHK Listing. As at the Latest Practicable Date, the terms of the proposed reorganisation has not been finalised. The group structure of the Spin-Off Group as at the Latest Practicable Date is set out in **Appendix A** to this Circular.

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2.3.3 Principal activities of the Spin-Off Group

The Spin-Off Group is engaged in the Electronic Components Distribution Business in Hong Kong and the PRC. The Spin-Off Group's customers are primarily smartphone and telecommunications, household appliances, consumer electronics, automotive and industrial manufacturers based in the Hong Kong and the PRC, who purchase electronic components from the Spin-Off Group. The Spin-Off Group has offices and warehousing facilities in Hong Kong and various cities in the PRC, which services suppliers and distributes electronic components to its customers.

For FY2015, FY2016 and FY2017, revenue from the Group's Electronic Components Distribution Business amounted to approximately US\$1,060.9 million, US\$1,225.2 million and US\$1,431.9 million, respectively, which accounted for approximately 86.8%, 87.4% and 95.9% of the total revenue of the Group for FY2015, FY2016 and FY2017, respectively. Contribution of the Spin-Off Group's Electronic Components Distribution Business in Hong Kong and the PRC for FY2015, FY2016 and FY2017 was approximately US\$661.3 million, US\$852.7 million and US\$1,047.4 million, respectively, which accounted for approximately 62.3%, 69.6% and 73.1% of the Group's Electronic Components Distribution Business revenue or approximately 54.1%, 60.8% and 70.2% of the total revenue of the Group for each of the relevant financial years, respectively.

As at the Latest Practicable Date, the details of SMHK's subsidiaries and associated company, and their principal activities and principal places of business, are as follows:

Name	Principal activities	Principal place of business	Shareholding interest held by SMHK (%)
<u>Held by SMHK</u>			
Serial Microelectronics (Shenzhen) Co., Ltd	Distribution of electronic and electrical components	The PRC	100.0
Serial Microelectronics (Beijing) Co., Ltd	Investment holding	The PRC	100.0
Serial Design Limited	Distribution of electronic and electrical components	Hong Kong	100.0
Serial Vision Limited	Distribution of electronic and electrical components	Hong Kong	100.0
Xuanhong Automotive Electronics Limited	Investment holding and distribution of semiconductor components focusing on automotive segment in Hong Kong	Hong Kong	70.0 ⁽¹⁾
Serial Automotive Limited	Distribution of electronic component modules focusing on automotive customers	Hong Kong	60.0 ⁽²⁾
Newstone Technology Limited	Marketing, promotion, sale, export and distribution of semiconductor components	Hong Kong	51.0 ⁽³⁾
Unitrontech China Co., Limited	Distribution of electronic and electrical components	Hong Kong	45.0 ⁽⁴⁾
<u>Held by Serial Automotive Limited</u>			
Serial Automotive (Shanghai) Co., Ltd	Distribution of electronic component modules focusing on automotive customers	The PRC	60.0

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Name	Principal activities	Principal place of business	Shareholding interest held by SMHK (%)
<u>Held by Newstone Technology Limited</u>			
Newstone Technology (Shenzhen) Company Limited	Marketing, promotion, sales, export and distribution of semiconductor components	The PRC	51.0
<u>Held by Xuanhong Automotive Electronics Limited</u>			
Xuanli Automotive Electronics Co., Limited	Distribution of semiconductor components focusing on automotive segment in China	The PRC	70.0

Notes:

- (1) The remaining 30.0% of Xuanhong Automotive Electronics Limited is held by CX Technology Limited.
- (2) The remaining 40.0% of Serial Automotive Limited is held by Y&Y Automotive Electronics HK Limited.
- (3) The remaining 49.0% of Newstone Technology Limited is held by Fully Centre Limited.
- (4) The remaining 55.0% of Unitrontech China Co., Ltd. is held by Unitrontech Co., Ltd, a company based in South Korea and listed on the Korean Securities Dealers Automated Quotations.

As at the Latest Practicable Date, none of the Directors has any interests in CX Technology Limited, Y&Y Automotive Electronics HK Limited, Fully Centre Limited or Unitrontech Co, Ltd.

The business of the Spin-Off Group is demarcated principally by the geographical markets in which it operates. The Spin-Off Group operates with a unique risk profile owing to the scale and the aggressive expansion strategy necessary to remain competitive in the Hong Kong and PRC electronic components distribution market. As the Spin-Off Group has been structured and operated as a standalone business unit, no major internal restructuring exercise will be necessary in order to consolidate the Spin-Off Group for the Proposed Spin-Off and the Proposed SEHK Listing.

As at the Latest Practicable Date, (a) the business of the Spin-Off Group; and (b) the Retained Electronic Components Distribution Business, the Consumer Products Distribution Business and the Other Group Businesses, are currently (i) managed by separate management, operational and accounting teams, which maintain separate accounting records for each group; and (ii) operated independently of each other, with clear delineation of business. Accordingly, the businesses and assets of the Spin-Off Group and the Group (excluding the Spin-Off Group) are clearly differentiated with a segregation of their management, operational and financial aspects.

2.4 Proposed management and directors of the Spin-off Group

2.4.1 Management team of the Spin-Off Group

The Spin-Off Group has a separate and dedicated management team from the Group (excluding the Spin-Off Group). As at the Latest Practicable Date, the executive management team of the Spin-Off Group is based in Hong Kong and the PRC and comprises the following:

- (a) Mr. Ho, President;
- (b) Mr. Henry Kong, Financial Controller;
- (c) Mr. Gary Chan, General Manager;
- (d) Mr. Eric Li, General Manager; and
- (e) Ms. Tina To, Operations Director.

LETTER TO SHAREHOLDERS

2.4.2 Listco Board

It is currently envisaged that the Listco Board will comprise a total of 6 directors, being 2 executive directors, 1 non-executive director and 3 independent non-executive directors as required under the SEHK Listing Rules.

To facilitate effective management of the Listco and the Spin-Off Group, it is proposed that the current Executive Chairman of the Company & Group CEO, Dr. Derek Goh Bak Heng, be appointed as the Non-Executive Chairman of the Listco in connection with the Proposed Spin-Off and the Proposed SEHK Listing. Dr. Derek Goh Bak Heng will remain as the current Executive Chairman of the Company & Group CEO following such appointment.

It should be noted that the final compositions of the Listco Board and the management team of the Spin-Off Group have not been determined as at the Latest Practicable Date. The final compositions of the Listco Board and the management team of the Spin-Off Group are subject to, among other things, the approval of SEHK and compliance with the SEHK Listing Rules, and the Company reserves the right to determine the Listco Board and the management team of the Spin-Off Group.

2.5 **Non-Compete Undertakings in respect of Retained Electronic Components Distribution Business**

To mitigate any potential conflicts of interest that may arise between the businesses of the Spin-Off Group and the Group (excluding the Spin-Off Group), the Company (for itself and on behalf of all of its subsidiaries excluding the Spin-Off Group) will be providing and will be procuring its subsidiaries to provide non-compete undertakings to the Listco in relation to engaging in the Electronic Components Distribution Business. The non-compete undertakings will be effective upon the Proposed SEHK Listing and for so long as the Company remains a controlling shareholder of the Listco. As at the Latest Practicable Date, the terms of the non-compete undertakings are not finalised and details of the same will be contained in the prospectus to be issued in connection with the Proposed SEHK Listing.

2.6 **Restrictions on disposal of the Listco Shares**

Immediately after the completion of the Proposed SEHK Listing, the Company intends to hold not less than 51.0% of the issued share capital of SMHK. Pursuant to the requirements of the SEHK Listing Rules and to demonstrate its commitment to SMHK, each of the Company and SMPL, being a controlling shareholder of the Listco (as defined under the SEHK Listing Rules), shall not:

- (a) in the period of six (6) months from the date of the Proposed SEHK Listing (“**First Lock-Up Period**”), dispose of any of its Listco Shares; or
- (b) in the period of six (6) months commencing from the date on which the First Lock-Up Period expires, dispose, or enter into any agreement to dispose of or otherwise create any options, rights, interests or encumbrances in respect of, any of its Listco Shares referred in paragraph (a) above if, immediately following such disposal or upon the exercise or enforcement of such options, rights, interests or encumbrances, the Company or SMPL, as the case may be, would cease to be a controlling shareholder.

Under the SEHK Listing Rules, a “controlling shareholder” is any person who is or group of persons who are together entitled to exercise or control the exercise of 30.0% (or such other amount as may from time to time be specified in The Hong Kong Code on Takeovers and Mergers issued by the SFC as being the level for triggering a mandatory general offer) or more of the voting power at general meetings of the issuer or who is or are in a position to control the composition of a majority of the board of directors of the issuer.

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2.7 Rationale for and Tangible Benefits of the Proposed Spin-Off and the Proposed SEHK Listing

The basis for the Board's assessment that the Proposed Spin-Off and the Proposed SEHK Listing would bring tangible benefits to Shareholders is as follows:

2.7.1 Segregation of Financial Risk and Reduction of the Company's Gearing

The Spin-Off Group operates in a capital intensive industry with high demand for working capital to grow and expand. The scale of the Spin-Off Group's financing and borrowing requirements are significant. As at 31 December 2016 and 31 December 2017, the Spin-Off Group's net borrowings amounted to approximately US\$58.8 million and US\$88.7 million, respectively, which represented approximately 42.2% and 53.3% of the Group's total net borrowings of approximately US\$139.3 million and US\$166.5 million, respectively.

As at 31 December 2016 and 31 December 2017, the Group's net borrowings, based on shareholders' equity (excluding non-controlling interests) of approximately US\$119.9 million and US\$137.5 million, respectively, represented a gearing ratio of approximately 116.2% and 121.1%, respectively. While the Group is presently able to meet its obligations when they fall due, as a matter of prudence, the Directors are of the view that the Spin-Off Group should be strengthened financially via an equity injection, and by the availability of additional funding options as a separate listed entity with direct access to the capital markets.

In addition to third party indebtedness, the Company had also provided shareholder loans to SMHK and issued corporate guarantees to secure the Spin-Off Group's borrowings. As at 31 December 2016 and 31 December 2017, SMHK owed the Company approximately US\$25.4 million and US\$20.8 million in shareholder loans, respectively. SMHK has applied for bank facilities for the purposes of repaying such shareholder loans owed to the Company and for the release of the corporate guarantees provided by the Company to secure the Spin-Off Group's borrowings in order to demonstrate financial independence in connection with the Proposed SEHK Listing.

The Company intends for the Spin-Off Group to continue to aggressively grow and expand its operations in Hong Kong and the PRC following the Proposed SEHK Listing to keep pace with the growth of the electronics manufacturing industry in Hong Kong and the PRC with no or less reliance on the Group, which is in the interests of the Company and its Shareholders.

2.7.2 Efficient Allocation of Capital and Resources

The Proposed Spin-Off and the Proposed SEHK Listing will allow the Spin-Off Group to raise new funds from the Hong Kong market and obtain new bank borrowings independently from the Company to fund its business expansion. This independent access to capital will allow the Spin-Off Group to augment its position in the burgeoning PRC market, without increasing the Company's exposure to the financial risks of the Spin-Off Group. The Company and SMHK will also be able to increase their respective financing capacity for expansion without risk of breaching existing bank financial covenants. The Proposed Spin-Off will thus also enable the Group to redeploy its financial and other resources to its other businesses that are not under the Spin-Off Group.

Each listed entity will also be able to tap separate equity and debt capital markets for funding depending on market conditions. The Company believes that this will allow the Group (excluding the Spin-Off Group) and the Spin-Off Group to maximize market opportunities, profits and Shareholder value.

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2.7.3 Unlocking the value of the Spin-Off Group

The Spin-Off Group has in recent years experienced strong growth. Based on the audited consolidated financial statements of the Group for FY2015, FY2016 and FY2017, the Spin-Off Group's performance in the past three (3) financial years are as follows:

(US\$'000)	← Audited →		
	FY2015	FY2016	FY2017
Revenue ⁽¹⁾	661,300	852,772	1,047,434
Cost of sales	(608,850)	(792,912)	(978,313)
Gross profit	52,450	59,860	69,121
Net Profit after income tax	6,607	9,874	11,389

Note:

(1) Excludes inter-company sales.

The Spin-Off Group is in a good position to further enhance its growth and the Company believes that a separate quotation of the Listco on the SEHK will unlock the value of the Spin-Off Group, which the Spin-Off Group can leverage to fund further growth and expansion. As the Company will hold a majority interest in the Spin-Off Group upon completion of the Proposed SpinOff and the Proposed SEHK Listing, the Company and its Shareholders will still be able to participate in and benefit from the growth of the Spin-Off Group. Shareholders and new investors will also benefit from the Proposed Spin-Off and the Proposed SEHK Listing as they will have the flexibility to invest in the shares of either or both listed entities, in accordance with their personal preferences and risk appetites.

2.8 **Rule 406(7) of the Catalist Rules**

On 6 March 2018, the Continuing Sponsor had made a submission to the SGX-ST confirming that the Proposed Spin-Off complies with Rule 406(7) of the Catalist Rules and does not constitute a chain listing.

2.9 **Conditions for the Proposed Spin-Off and the Proposed SEHK Listing**

Shareholders should note that the Proposed Spin-Off and the Proposed SEHK Listing shall only take effect upon, among other things, the satisfaction of the following conditions:

- (a) Shareholders' approvals for the Proposed Spin-Off and the Proposed SEHK Listing, the Proposed Dilution of Equity Interest in SMHK and the Proposed Listing Transfer being obtained at the EGM; and
- (b) such other approvals, authorisations, consents and confirmations from the regulatory authorities as may be required or advisable in connection with the Proposed SEHK Listing being obtained on terms acceptable to the Company and the Listco and the same remaining in full force and effect.

The Company wishes to highlight that there can be no assurance that the approval for the Proposed SEHK Listing will be granted by the listing board of the SEHK, or the Proposed SEHK Listing will materialise, or otherwise proceed in a timely fashion. In the event that any of the foregoing is not achieved or fulfilled, the Listco will not be able to proceed with the Proposed Spin-Off and the Proposed SEHK Listing.

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3. THE PROPOSED DILUTION OF EQUITY INTEREST IN SMHK

The Proposed Spin-Off and the Proposed SEHK Listing will result in a dilution of the Company's shareholding interest in SMHK due to the issue of new Listco Shares in connection with the Proposed SEHK Listing. Shareholders should note that the actual level of the dilution of the Company's shareholding interest in the issued share capital of SMHK pursuant to the Proposed SEHK Listing will depend on, among other things, the IPO Price and the total number of Listco Shares issued in connection with the Proposed SEHK Listing.

Rule 805(2)(b) of the Mainboard Rules requires an issuer to obtain the prior approval of shareholders in general meeting if a principal subsidiary issues shares or convertible securities or options that will or may result in a percentage reduction of 20.0% or more of the issuer's equity interest in the principal subsidiary. The Mainboard Rules define a principal subsidiary as *"a subsidiary whose latest audited consolidated pre-tax profits (excluding the minority interest relating to that subsidiary) as compared with the latest audited pre-tax profits of the group (excluding minority interest relating to that subsidiary) accounts for 20.0% or more of such pre-tax profits of the group. In determining profits, exceptional and extraordinary items are to be excluded."*

The audited consolidated pre-tax profit of the Spin-Off Group (excluding minority interests) for FY2017 was US\$14.86 million while the audited consolidated pre-tax profit of the Group (excluding minority interests) was US\$15.67 million. Accordingly, the Spin-Off Group accounted for approximately 94.8% of the Group's pre-tax profit and hence is considered a principal subsidiary of the Company.

Following the Proposed Spin-Off and the Proposed SEHK Listing, SMPL's diluted shareholding in SMHK will result in a percentage reduction of 20.0% or more of the Company's equity interest in SMHK, being a principal subsidiary of the Company as contemplated under Rule 805(2)(b) of the Mainboard Rules, with the Company retaining a majority interest in SMHK. Accordingly, in addition to Shareholders' approval for the Proposed Spin-Off and the Proposed SEHK Listing, the Company is seeking Shareholders' approval for the Proposed Dilution of Equity Interest in SMHK at the EGM.

Shareholders should note that the actual change to the shareholding interest of the Company in SMHK as a result of the Proposed Spin-Off and the Proposed SEHK Listing is yet to be determined and will depend on, among other things, the IPO Price and the total number of Listco Shares issued in connection with the Proposed SEHK Listing. Accordingly, the actual extent of the dilution of the Company's shareholding interest in SMHK is not fixed as at the Latest Practicable Date, and will vary according to the offer structure.

4. FINANCIAL EFFECTS OF THE PROPOSED SPIN-OFF AND THE PROPOSED SEHK LISTING

4.1 Bases and Assumptions

The *pro forma* financial effects of the Proposed Spin-Off and the Proposed SEHK Listing are presented for illustration only and are not intended to reflect the actual future financial situation of the Company after the completion of the Proposed Spin-Off and the Proposed SEHK Listing. These illustrative *pro forma* financial effects have been computed based on (a) the Group's latest audited consolidated financial statements for FY2016 and FY2017; and (b) the audited consolidated financial statements of the Spin-Off Group for FY2016, as well as the following key assumptions:

- (a) the market capitalisation of the Listco of US\$220.0 million in the minimum scenario ("**Minimum Scenario**") or US\$300.0 million in the maximum scenario ("**Maximum Scenario**") at the point of completion of the Proposed SEHK Listing based on comparable SEHK companies as at the Latest Practicable Date;

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- (b) the Company's interest in SMHK will be diluted from 91.0% to approximately 68.25% further to the issue of new Listco Shares, and the Company will continue to consolidate the financial results of SMHK as a subsidiary;
- (c) the financial effects of the Proposed Spin-Off and the Proposed SEHK Listing on the NTA per Share and gearing for FY2016 and FY2017 are computed assuming that the Proposed Spin-Off and the Proposed SEHK Listing had been completed on 31 December 2016 and 31 December 2017, respectively;
- (d) the financial effects of the Proposed Spin-Off and the Proposed SEHK Listing on the EPS for FY2016 and FY2017 are computed assuming that the Proposed Spin-Off and the Proposed SEHK Listing had been completed on 1 January 2016 and 1 January 2017, respectively; and
- (e) expenses incurred in relation to the Proposed SEHK Listing is approximately US\$5.3 million, out of which US\$2.2 million is capitalised.

Shareholders should note that the assumptions set out above have been made purely for the purposes of calculating the financial effects of the Proposed Spin-Off and the Proposed SEHK Listing and are subject to change. As at the Latest Practicable Date, the offer structure and amount of proceeds to be raised from the Proposed SEHK Listing have not been finalised. The amount of proceeds to be raised in connection with the Proposed SEHK Listing will be dependent on, among other things, the IPO Price and the total number of new Listco Shares to be issued in connection with the Proposed SEHK Listing. The Company reserves the right to determine the offer structure for the Proposed SEHK Listing.

4.2 Share Capital

The Proposed Spin-Off and the Proposed SEHK Listing will have no impact on the Company's issued share capital.

4.3 NTA per Share

	As at 31 December 2016			As at 31 December 2017		
	Before the Proposed Spin-Off and the Proposed SEHK Listing	After the Proposed Spin-Off and the Proposed SEHK Listing		Before the Proposed Spin-Off and the Proposed SEHK Listing	After the Proposed Spin-Off and the Proposed SEHK Listing	
		Minimum Scenario	Maximum Scenario		Minimum Scenario	Maximum Scenario
NTA (US\$'000) ⁽¹⁾	105,204	129,247	142,897	123,718	145,171	158,821
Shares ('000)	895,842	895,842	895,842	895,842	895,842	895,842
NTA per Share (US cents)	11.74	14.43 ⁽²⁾	15.95 ⁽²⁾	13.81	16.20 ⁽²⁾	17.73 ⁽²⁾

Notes:

- (1) NTA means total assets less the sum of total liabilities, non-controlling interest and intangible assets (net of non-controlling interests).
- (2) The increase in NTA per Share is mainly due to the effect of the cash proceeds raised from the Proposed SEHK Listing.

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4.4 EPS

	FY2016		FY2017	
	Before the Proposed Spin-Off and the Proposed SEHK Listing	After the Proposed Spin-Off and the Proposed SEHK Listing	Before the Proposed Spin-Off and the Proposed SEHK Listing	After the Proposed Spin-Off and the Proposed SEHK Listing
Earnings attributable to Shareholders (US\$'000)	4,558	183	9,550	5,236
Weighted average number of Shares ('000)	895,842	895,842	895,842	895,842
EPS (US cents)	0.51	0.02	1.07	0.58

4.5 Gearing

	As at 31 December 2016			As at 31 December 2017		
	Before the Proposed Spin-Off and the Proposed SEHK Listing	After the Proposed Spin-Off and the Proposed SEHK Listing		Before the Proposed Spin-Off and the Proposed SEHK Listing	After the Proposed Spin-Off and the Proposed SEHK Listing	
		Minimum Scenario	Maximum Scenario		Minimum Scenario	Maximum Scenario
Total borrowings (US\$'000)	204,425	176,925	166,925	239,582	212,082	202,082
Cash and cash equivalents (US\$'000)	65,153	87,332	97,332	73,080	95,840	105,840
Net borrowings (US\$'000)	139,272	89,593	69,593	166,502	116,242	96,242
Net gearing ratio	1.16	0.62	0.44	1.21	0.73	0.56

5. THE PROPOSED LISTING TRANSFER

5.1 Background

In conjunction with the Proposed Spin-Off and the Proposed SEHK Listing, it is proposed that the Company will transfer the listing of its Shares from the Mainboard to Catalist. Provenance Capital has been appointed as the continuing sponsor of the Company, subject to the Proposed Listing Transfer taking effect.

On 4 April 2018, the Board announced that the Company had obtained the approval in-principle (the “AIP”) from the SGX-ST for the Proposed Listing Transfer. The AIP is subject to, among other things:

- compliance with the SGX-ST's listing requirements;
- an immediate announcement via SGXNET of the Proposed Listing Transfer;
- Shareholders' approval being obtained for the Proposed Listing Transfer via a special resolution under Rule 410(4) of the Catalist Rules; and

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- (d) submission of:
 - (i) a written undertaking from the Company in the format set out in Appendix 4E of the Catalist Rules to comply with all of the SGX-ST's requirements and policies applicable to the issuers listed on Catalist;
 - (ii) a written undertaking by the Company that it is not aware of any material information which has not been previously announced via SGXNET which will affect the Company's suitability for the transfer to Catalist; and
 - (iii) a written confirmation from the Company that it is in compliance with all applicable Mainboard Rules.

Please note that the AIP is not to be taken as an indication of the merits of the Proposed Listing Transfer, the Company, its subsidiaries, its associated company or its securities.

5.2 Rationale for the Proposed Listing Transfer

5.2.1 Mainboard Admission Criteria

In accordance with the SGX-ST's further guidance on "*Proposals for Restructuring and Spin-offs*" released on 24 February 2011, the Proposed Spin-Off will need to comply with the following requirements:

- (a) the Spin-Off Group will need to comply with the principle set out under Rule 210(6) of the Mainboard Rules (or Rule 406(7) of the Catalist Rules);
- (b) the Spin-Off Group is expected to have businesses and assets that are clearly differentiated and managed independently; and
- (c) the business of the Group (excluding the Spin-Off Group) after the Proposed Spin-Off should be viable and profitable and comply with the admission criteria for listing on the Mainboard.

As at the Latest Practicable Date, the Directors are of the view that the Group's remaining businesses outside the Electronic Components Distribution in Hong Kong and the PRC do not satisfy the admission criteria for listing on the Mainboard, which include quantitative criteria in terms of profitability or market capitalisation of the Group (excluding the Spin-Off Group) after the Proposed Spin-Off and the Proposed SEHK Listing (the "**Mainboard Admission Criteria**").

As there are no minimum quantitative criteria in terms of profitability or market capitalisation for admissions to Catalist, the Company sought and obtained the No Objection Confirmation from the SGX-ST that the Company will be permitted to undertake the Proposed Spin-Off concurrently with a transfer to Catalist. Please refer to section 2.1 of this Circular for details of conditions attached to the No Objection Confirmation from the SGX-ST.

5.2.2 Catalist as a more conducive platform

In addition to the absence of the Mainboard Admission Criteria, the Directors believe that Catalist can provide a more conducive platform for the Company to conduct fundraising activities and potential acquisitions and disposals in the future as and when determined to be in the interests of the Group.

5.3 Requirements for the Proposed Listing Transfer

A transfer of the listing from the Mainboard to Catalist is governed by Rule 410 of the Catalist Rules. As set out below, the Company has met all the requirements for a transfer to Catalist, save for the requirement for Shareholders' approval for the Proposed Listing Transfer.

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5.3.1 Rule 410(1) – Compliance with Rules 406(1), (2)(b), (3), (4) and 407(2) and (3)

Based on the shareholding statistics available to the Company as at the Latest Practicable Date, approximately 40.46% of the Shares are held in the hands of the public and the number of public Shareholders is more than 200. As such, the Company will fulfil the public float and shareholding spread and distribution requirements of Rule 406(1) of the Catalist Rules by having at least 15.0% of the Shares in the hands of the public and more than 200 public shareholders.

The overall distribution of shareholdings is expected to provide an orderly secondary market in the securities when trading commences, and is unlikely to lead to a corner situation in the Shares.

The Company has complied with Rule 406(3) of the Catalist Rules as:

- (a) the Directors and executive officers of the Group have the appropriate experience and expertise to manage the Group's business;
- (b) nothing materially adverse has come to the attention of Provenance Capital to suggest that the Directors, executive officers of the Group and/or Controlling Shareholders do not have the character and integrity expected of a listed issuer; and
- (c) the Group has at least two non-executive directors who are independent and free of any material business or financial connections with the Group.

Pursuant to Rule 407(2) of the Catalist Rules, in the reasonable opinion of the Board, barring unforeseen circumstances and after taking into consideration the Group's existing business, internal resources and present bank facilities and the Group's positive working capital position as at 31 December 2017, the working capital available to the Group is sufficient for its present requirements and for at least 12 months after the Proposed Listing Transfer takes effect.

Pursuant to Rule 407(3) of the Catalist Rules, in the reasonable opinion of Provenance Capital, barring unforeseen circumstances and after taking into consideration the Group's existing business, internal resources and present bank facilities and the Group's positive working capital position as at 31 December 2017, the working capital available to the Group is sufficient for its present requirements and for at least 12 months after the Proposed Listing Transfer takes effect.

Accordingly, save for Rule 406(4) of the Catalist Rules (which is not applicable to a transfer of an existing issuer from the Mainboard to Catalist), Rule 410(1) of the Catalist Rules has been complied with.

5.3.2 Rule 410(2) – The Company is sponsored and the Sponsor provides the SGX-ST with a completed Appendix 4D (*Transfer Confirmation by Sponsor*)

The Catalist is a sponsor-supervised regime. The Company has appointed Provenance Capital as its continuing sponsor, subject to the Proposed Listing Transfer taking effect. Provenance Capital has provided the SGX-ST with the completed Appendix 4D (*Transfer Confirmation by Sponsor*) of the Catalist Rules.

Accordingly, Rule 410(2) of the Catalist Rules has been complied with.

5.3.3 Rule 410(3) – The Company provides the SGX-ST with a completed Appendix 4E (*Applicant's Listing Agreement*)

The Company has in its application to the SGX-ST for the Proposed Listing Transfer provided the SGX-ST with the completed Appendix 4E (*Applicant's Listing Agreement*) of the Catalist Rules.

Accordingly, Rule 410(3) of the Catalist Rules has been complied with.

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5.3.4 Rule 410(4) – The Shareholders have approved the Proposed Listing Transfer by special resolution

The Proposed Listing Transfer is subject to the approval of Shareholders by way of special resolution at the EGM, the notice of which is set out on pages 26 to 28 of this Circular.

Accordingly, subject to the approval of Shareholders for the Proposed Listing Transfer at the EGM, Rule 410(4) of the Catalist Rules will be complied with.

5.3.5 Rule 410(5) – The Company is in compliance with all applicable Mainboard Rules

The Company confirms that it is in compliance with all applicable Mainboard Rules.

Accordingly, Rule 410(5) of the Catalist Rules has been complied with.

5.4 Shareholders' Approval

The Proposed Listing Transfer is subject to the approval of Shareholders by way of Special Resolution 1 to be tabled at the EGM.

5.5 Use of CPF Savings under the CPF Investment Scheme to Purchase Shares

Shareholders should note that CPF savings cannot be used to purchase shares that are listed on Catalist, except for companies that were migrated from SESDAQ to Catalist on 17 December 2007. If Shareholders approve the Proposed Listing Transfer at the EGM and the Company transfers its listing to Catalist, CPF account savings can no longer be used to purchase Shares under the CPFIS. Shareholders who have purchased Shares using their account savings under CPFIS can choose to hold or sell their Shares or participate in corporate actions, subject to prevailing CPFIS rules and limits for such Shares.

6. INTERESTS OF DIRECTORS AND SUBSTANTIAL SHAREHOLDERS

The interests of the Directors and Substantial Shareholders in the Shares, based on the registers of Directors' interests in Shares and Substantial Shareholders' interests in Shares, respectively, as at the Latest Practicable Date, are as follows:

	Direct Interest		Deemed Interest	
	No. of Shares	% ⁽¹⁾	No. of Shares	% ⁽¹⁾
Directors				
Derek Goh Bak Heng	355,090,070	39.64	50,000	0.01
Teo Ser Luck	—	—	—	—
Tan Lye Heng Paul	300,000	0.03	—	—
Ravindran s/o Ramasamy	—	—	—	—
Ng Cher Yan	150,000	0.02	—	—
Goi Kok Neng Ben	—	—	—	—
Substantial Shareholder other than Directors				
Goi Seng Hui	115,960,238	12.94	24,862,800 ⁽²⁾	2.78

Notes:

(1) Based on 895,841,914 Shares as at the Latest Practicable Date.

(2) Mr. Goh Seng Hui is deemed to have an interest in the 24,862,000 Shares held by Tee Yih Jia Food Manufacturing Pte Ltd by virtue of Section 7 of the Companies Act.

None of the Directors or the Substantial Shareholders have any interest, direct or indirect, in the Proposed Transactions, save for their respective shareholdings in the Company.

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7. DIRECTORS' RECOMMENDATIONS

Having reviewed, among other things, the rationale for and the tangible benefits of the Proposed Spin-Off, the Proposed SEHK Listing and the Proposed Listing Transfer, the Directors are of the view that the Proposed Spin-Off, the Proposed SEHK Listing, the Proposed Dilution of Equity Interest in SMHK and the Proposed Listing Transfer are in the best interests of the Company, and they recommend that Shareholders vote in favour of Ordinary Resolution 1, Ordinary Resolution 2 and Special Resolution 1 at the EGM.

In giving the above recommendation, the Directors have not had regard to the specific investment objectives, financial situation, tax position or unique needs or constraints of any individual Shareholder. As different Shareholders would have different investment objectives and profiles, the Directors recommend that any individual Shareholder who may require specific advice in relation to his specific investment portfolio should consult his stockbroker, bank manager, solicitor, accountant, tax adviser or other professional advisers.

8. EXTRAORDINARY GENERAL MEETING

The EGM, notice of which is set out on pages 26 to 28 of this Circular, will be held at 8 Ubi View #05-01 Serial System Building Singapore 408554 on 28 April 2018 at 12.00 p.m. (or as soon thereafter following the conclusion or adjournment of the Annual General Meeting of the Company to be held at 11.00 a.m. on the same day and at the same place) for the purpose of considering and, if thought fit, passing, with or without modifications, the Ordinary Resolutions and the Special Resolution set out therein.

9. ACTION TO BE TAKEN BY SHAREHOLDERS

Shareholders who are unable to attend the EGM and who wish to appoint a proxy to attend and vote at the EGM on their behalf shall complete and sign the attached proxy form in accordance with the instructions printed thereon and return it to 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 holding of the EGM. The completion and return of the proxy form by a Shareholder will not preclude him from attending and voting at the EGM, if he wishes to do so, in place of his proxy.

A Depositor shall not be regarded as a Shareholder entitled to attend the EGM and to speak and vote thereat unless Shares are entered against his name on the Depository Register as at 72 hours before the time fixed for the EGM.

Shareholders and other investors are reminded to exercise caution when dealing in the Shares. In the event that Shareholders and other investors are in doubt about the actions they should take, they should consult their stockbrokers, bank managers, solicitors, accountants or other professional advisers.

10. DIRECTORS' RESPONSIBILITY STATEMENT

The Directors collectively and individually accept full responsibility for the accuracy of the information given in this Circular and confirm after making all reasonable enquiries that, to the best of their knowledge and belief, this Circular constitutes full and true disclosure of all material facts about the Proposed Spin-Off and the Proposed SEHK Listing, the Proposed Dilution of Equity Interest in SMHK and the Proposed Listing Transfer, the Company, its subsidiaries and its associated companies, and the Directors are not aware of any facts the omission of which would make any statement in this Circular misleading.

Where information in this Circular 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 this Circular in its proper form and context.

LETTER TO SHAREHOLDERS

11. DOCUMENTS AVAILABLE FOR INSPECTION

Copies of the following documents are available for inspection at the registered office of the Company during normal business hours from the date of this Circular up to and including the time and date of the EGM:

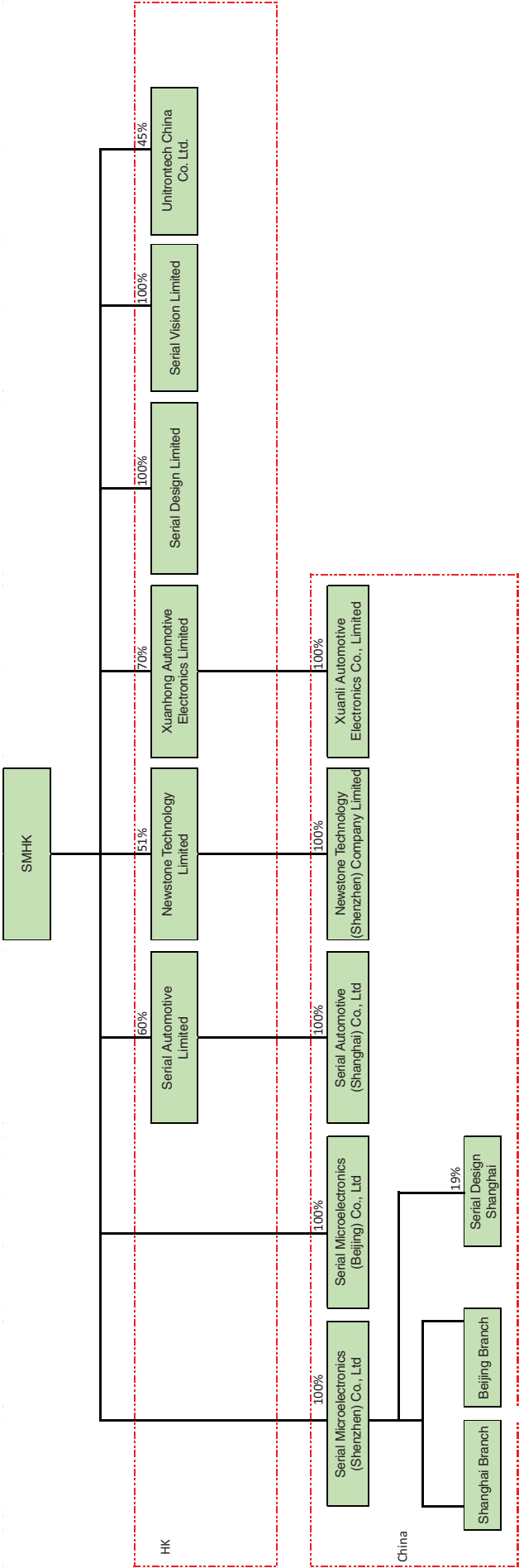
- (a) the Constitution of the Company; and
- (b) the annual report of the Company for FY2017.

Yours faithfully

For and on behalf of the Board
SERIAL SYSTEM LTD

Dr. Derek Goh Bak Heng
Executive Chairman & Group CEO

APPENDIX A – GROUP STRUCTURE OF THE SPIN-OFF GROUP



Note: The term "Spin-Off Group", as defined in this Circular to mean SMHK and its subsidiaries and associated company collectively, does not include Serial Design Shanghai.

NOTICE OF EXTRAORDINARY GENERAL MEETING

SERIAL SYSTEM LTD

(Incorporated in the Republic of Singapore)
(Company Registration Number: 199202071D)

Unless otherwise defined or the context otherwise requires, all capitalised terms herein shall bear the same meaning as ascribed to them in the circular dated 6 April 2018 issued by the Company (the “Circular”).

NOTICE IS HEREBY GIVEN that an extraordinary general meeting of Serial System Ltd (the “Company”) will be held at 8 Ubi View #05-01 Serial System Building Singapore 408554 on Saturday, 28 April 2018, at 12.00 p.m. or as soon thereafter following the conclusion or adjournment of the Annual General Meeting of the Company to be held at 11.00 a.m. on the same day and at the same place) for the purpose of considering and, if thought fit, passing (with or without modifications) the following resolutions:

ORDINARY RESOLUTION 1

THE PROPOSED SPIN-OFF AND THE PROPOSED SEHK LISTING

That subject to and contingent upon the passing of Ordinary Resolution 2 and Special Resolution 1 set out herein:

- (a) approval be and is hereby given for the Company to carry out and implement the Proposed Spin-Off and the Proposed SEHK Listing, as well as any other transactions contemplated thereunder; and
- (b) the Directors and/or each of them be and are hereby authorised to do all acts and things (including executing such documents as may be required) as they or each of them deem desirable, necessary or expedient to give effect to the matters referred to in the above paragraph of this ordinary resolution as they or each of them may in their or each of their absolute discretion deem fit in the interests of the Group.

ORDINARY RESOLUTION 2

THE PROPOSED DILUTION OF EQUITY INTEREST IN SMHK BY 20.0% OR MORE, WITH THE COMPANY RETAINING A MAJORITY INTEREST IN SMHK

That subject to and contingent upon the passing of Ordinary Resolution 1 and Special Resolution 1 set out herein:

- (a) approval be and is hereby given for the proposed dilution of the Company’s equity interest in SMHK, a principal subsidiary of the Company, by 20.0% or more, with the Company retaining a majority interest in SMHK, pursuant to the Proposed Spin-Off and the Proposed SEHK Listing, as contemplated under Rule 805(2)(b) of the Catalist Rules; and
- (b) the Directors and/or each of them be and are hereby authorised to do all acts and things (including executing such documents as may be required) as they or each of them deem desirable, necessary or expedient to give effect to the matters referred to in the above paragraph of this ordinary resolution as they or each of them may in their or each of their absolute discretion deem fit in the interests of the Group.

SPECIAL RESOLUTION 1

THE PROPOSED LISTING TRANSFER

That subject to and contingent upon the passing of Ordinary Resolution 1 and Ordinary Resolution 2 set out herein:

- (a) approval be and is hereby given for the Company to transfer its listing from the Mainboard to Catalist; and

NOTICE OF EXTRAORDINARY GENERAL MEETING

- (b) the Directors and/or each of them be and are hereby authorised to do all acts and things (including executing such documents as may be required) as they or each of them deem desirable, necessary or expedient to give effect to the matters referred to in the above paragraph of this special resolution as they or each of them may in their or each of their absolute discretion deem fit in the interests of the Group.

Please note that Ordinary Resolution 1, Ordinary Resolution 2 and Special Resolution 1 are interconditional. This means that if any of Ordinary Resolution 1, Ordinary Resolution 2 and Special Resolution 1 is not passed by Shareholders at the EGM, none of Ordinary Resolution 1, Ordinary Resolution 2 and Special Resolution 1 will be duly passed.

BY ORDER OF THE BOARD

Dr. Derek Goh Bak Heng
Executive Chairman & Group CEO

6 April 2018

Notes:

1. Except for a member who is a relevant intermediary as defined under Section 181(6) of the Companies Act, a member entitled to attend, speak and vote at the EGM may appoint not more than two proxies to attend, speak and vote in his/her stead. Where a member appoints more than one proxy, the proportion of his concerned shareholding to be represented by each proxy shall be specified in the proxy form.
2. Pursuant to Section 181(1C) of the Companies Act, a member who is a relevant intermediary as defined under Section 181(6) of the Companies Act is entitled to appoint more than two proxies to attend, speak and vote at the EGM, but each proxy must be appointed to exercise the rights attached to a different share or shares held by such member. Where such member 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.
3. Where a member appoints more than one (1) proxy, the member shall specify the proportion of his/her shares to be represented by each such proxy, failing which the nomination shall be deemed to be alternative.
4. A proxy need not be a member of the Company.
5. The instrument appointing a proxy must be deposited at the registered office of the Company, at 8 Ubi View, #05-01, Serial System Building, Singapore 408554 not later than seventy-two (72) hours before the time appointed for holding the EGM.
6. Where the instrument appointing a proxy or proxies is executed by an individual member, it must be signed by the appointor or an attorney duly authorised in writing. Where the instrument appointing a proxy or proxies is executed by a corporation, it must be executed under its common seal or under the hand of its attorney or a duly authorised officer.
7. Where an instrument appointing a proxy or proxies 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.
8. 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 EGM, in accordance with Section 179 of the Companies Act.
9. The submission of an instrument or form appointing a proxy or proxies by a member does not preclude him from attending and voting in person at the EGM if he so wishes.
10. A Depositor shall not be regarded as a member of the Company entitled to attend the EGM and to speak and vote thereat unless his name appears on the Depository Register 72 hours before the time set for the EGM.

NOTICE OF EXTRAORDINARY GENERAL MEETING

11. The Company shall be entitled to reject an instrument of proxy or proxies which is incomplete, improperly completed, illegible or where the true intentions of the appointor are not ascertainable from the instructions of the appointor specified on the instrument appointing a proxy or proxies. 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 appointor, is not shown to have Shares entered against his name in the Depository Register as at 72 hours before the time appointed for holding the EGM, as certified by The Central Depository (Pte) Limited to the Company.
12. 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 EGM in person. CPF/SRS Investors who are unable to attend the EGM but would like to vote, may inform CPF and/or SRS Approved Nominees to appoint the Chairman of the EGM to act as their proxy, in which case, the CPF/SRS Investors shall be precluded from attending the EGM.

Personal data privacy:

By submitting an instrument appointing a proxy(ies) and/or representative(s) to attend, speak and vote at the Extraordinary 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 Extraordinary General Meeting (including any adjournment thereof) and the preparation and compilation of the attendance lists, minutes and other documents relating to the Extraordinary 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.

**SERIAL SYSTEM LTD**Company Registration No.199202071D
(Incorporated in the Republic of Singapore)**PROXY FORM
EXTRAORDINARY GENERAL
MEETING***(Please see Notes overleaf before
completing this Proxy Form)***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 moneys 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 EGM dated 6 April 2018.

*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 extraordinary general meeting of the Company (the "EGM"), as *my/our *proxy/proxies to attend, speak and vote for *me/us on *my/our behalf at the EGM to be held on Saturday, 28 April 2018 at 12.00 p.m. (or as soon thereafter following the conclusion or adjournment of the Annual General Meeting of the Company to be held at 11.00 a.m. on the same day and at the same place) or at any adjournment thereof.

No.	Resolutions relating to:	For	Against
	Ordinary Business		
Ordinary Resolution 1	The Proposed Spin-Off and the Proposed SEHK Listing		
Ordinary Resolution 2	The Proposed Dilution of Equity Interest in SMHK		
	Special Business		
Ordinary Resolution 1	The Proposed Listing Transfer		

(Voting will be conducted by poll. If you wish to vote all your shares "For" or "Against" the relevant resolution, please tick (✓) within the box provided. Alternatively, if you wish to exercise your votes both "For" and "Against" the relevant resolution, please indicate the relevant number of shares in the relevant boxes provided above. In the absence of specific directions, the proxy/proxies will vote or abstain as he/she/they may think fit, as he/she/they will on any other matter arising at the EGM.)

Dated this _____ day of _____ 2018

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

Note: Please note that the short descriptions given above of the resolutions to be passed do not in any way whatsoever reflect the intent and purpose of the resolutions. The short descriptions have been inserted for convenience only. Shareholders are encouraged to refer to the Notice of EGM for the full purpose and intent of the resolutions to be passed.

Notes:

1. Except for a member who is a relevant intermediary as defined under Section 181(6) of the Companies Act, a member entitled to attend, speak and vote at the EGM may appoint not more than two proxies to attend, speak and vote in his/her stead. Where a member appoints more than one proxy, the proportion of his concerned shareholding to be represented by each proxy shall be specified in the proxy form.
2. Pursuant to Section 181(1C) of the Companies Act, a member who is a relevant intermediary as defined under Section 181(6) of the Companies Act is entitled to appoint more than two proxies to attend, speak and vote at the EGM, but each proxy must be appointed to exercise the rights attached to a different share or shares held by such member. Where such member 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.
3. Where a member appoints more than one (1) proxy, the member shall specify the proportion of his/her shares to be represented by each such proxy, failing which the nomination shall be deemed to be alternative.
4. A proxy need not be a member of the Company.
5. 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 81SF of the Securities and Futures Act (Chapter 289) of Singapore), you should insert that number. If you have Shares registered in your name in the Register of Members of the Company, you should insert that number. If you have Shares entered against your name in the Depository Register and registered in your name in the Register of Members, you should insert the aggregate number of Shares. If no number is inserted, this form of proxy will be deemed to relate to all the Shares held by you.
6. The instrument appointing a proxy or proxies, duly executed, must be deposited at the registered office of the Company at 8 Ubi View, #05-01, Serial System Building, Singapore 408554 not later than seventy-two (72) hours before the time appointed for holding the EGM.
7. Where the instrument appointing a proxy or proxies is executed by an individual member, it must be under the hand of the appointor or an attorney duly authorised in writing. Where the instrument appointing a proxy or proxies is executed by a corporation, it must be executed under its common seal or under the hand of its attorney or a duly authorised officer.
8. Where an instrument appointing a proxy or proxies 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.
9. 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 EGM, in accordance with Section 179 of the Companies Act.
10. The submission of an instrument or form appointing a proxy or proxies by a member does not preclude him from attending and voting in person at the EGM if he so wishes.
11. The Company shall be entitled to reject an instrument of proxy or proxies which is incomplete, improperly completed, illegible or where the true intentions of the appointor are not ascertainable from the instructions of the appointor specified on the instrument appointing a proxy or proxies. 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 appointor, 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 EGM, as certified by The Central Depository (Pte) Limited to the Company.
12. 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 EGM in person. CPF/SRS Investors who are unable to attend the EGM but would like to vote, may inform CPF and/or SRS Approved Nominees to appoint the Chairman of the EGM to act as their proxy, in which case, the CPF/SRS Investors shall be precluded from attending the EGM.