



SERIAL SYSTEM LTD
(Incorporated in the Republic of Singapore)
(Company Registration Number: 199202071D)
(the “**Company**”)

PROPOSED ACQUISITION OF 100% EQUITY INTEREST IN SWIFT VALUE BUSINESS PTE. LTD.

1. INTRODUCTION

- 1.1 The board of directors (“**Board**”) of Serial System Ltd (the “**Company**”) is pleased to announce that the Company has on 13 March 2015 entered into a conditional sale and purchase agreement (“**SPA**”) with Swift Value Business Pte. Ltd. (“**Swift Value**”), a company incorporated in Singapore.
- 1.2 Pursuant to the SPA, the Company shall acquire the entire shareholding interest in the capital of Swift Value (“**Sale Shares**”) from Ms. Neo Siew Wah (“**Proposed Acquisition**”). The Sale Shares represent 100% of the issued and paid-up share capital of Swift Value upon completion of the Proposed Acquisition (“**Completion**”).
- 1.3 Conditional upon the satisfaction (or waiver thereof) of the conditions precedent set out in the SPA, Completion shall take place on the completion date (“**Completion Date**”), defined as 1 May 2015, or such other date as the Company, Ms. Neo Siew Wah and Swift Value may mutually agree in writing.

2. INFORMATION ON THE SWIFT VALUE

- 2.1 Swift Value, a company incorporated in Singapore, is principally engaged in the business of distribution of printer accessories such as ink cartridges and toners (“**Swift Value Businesses**”).

3. RATIONALE FOR THE PROPOSED ACQUISITION

- 3.1 The Company, together with its subsidiaries (“**Group**”) are engaged in the distribution of electronic components and finished consumer electronic products.
- 3.2 The Company is of the view that the Swift Value Businesses are complementary to the Group’s business in the distribution of consumer electronic products. The Proposed Acquisition provides an avenue for Swift Value to leverage on the Group’s extensive expertise in distribution, wide distribution networks and customer base, as well as operational synergies and economies of scale, to expand and improve the business, operations and financial performance of Swift Value.

- 3.3 The Proposed Acquisition is in line with the Group's strategy to acquire companies which may capitalise on the Group's competitive strengths and extensive distribution networks, and expand the Group's product lines and ranges and customer base.

4. **PRINCIPAL TERMS OF THE PROPOSED ACQUISITION**

4.1 Consideration

The aggregate purchase consideration consists of the total amount of Net Tangible Assets ("**NTA**"), plus a premium of S\$10 million (US\$7.4 million) and twenty per cent. (20%) share of Net Profit After Tax ("**NPAT**") for the financial years ending 31 December 2015, 2016 and 2017, payable by the Company to Ms. Neo Siew Wah for the Sale Shares ("**Consideration**"). The NTA is based on the management accounts of Swift Value as at 30 April 2015, subject to any adjustments after the completion of the financial and legal due diligence on Swift Value conducted by the Company. As at 31 December 2014, Swift Value's unaudited NTA after adjustments amounted to S\$3,013,000 (US\$2,221,000). The Consideration was negotiated at arm's length on a "willing-buyer, willing-seller" basis, taking into consideration, *inter alia*, (i) the information provided and exchanged by both parties prior to this Agreement; and (ii) the profitability, financial position and business prospects of Swift Value. The Consideration will be funded by internal funds and/or bank borrowings.

4.2 Payment

The Consideration shall be paid in cash in the following manner:

- (a) NTA plus the sum of S\$5 million (US\$3.7 million) shall be paid by the Company to Ms. Neo Siew Wah on Completion Date;
- (b) the sum of S\$2.5 million (US\$1.8 million) on a date falling not later than six (6) months from the Completion Date, or such other date as the parties may agree in writing;
- (c) the sum of S\$2.5 million (US\$1.8 million) on a date falling not later than twelve (12) months from the Completion Date, or such other date as the parties may agree in writing;
- (d) twenty per cent. (20%) share of the NPAT for each of financial years ending 31 December 2015, 2016 and 2017, upon the finalization of the audited financial statements of Swift Value in each of the relevant financial years. No consideration shall be made if in the event the NPAT of Swift Value in each of the abovementioned financial years is zero or a negative figure. The total consideration payable for the three financial years is estimated to be approximately S\$1.2 million (US\$0.9 million) based on historical trend analysis with projected growth rate.

4.3 Conditions Precedent

Completion of the Proposed Acquisition shall be conditional upon the satisfaction (or waiver thereof) of conditions precedent customary for transactions of such nature on or before Completion Date, as well as the following:

- (a) the board of directors and the shareholders (if required) of the Company and Swift Value approving the sale and purchase of the Sale Shares in accordance with the SPA; and
- (b) Swift Value having informed all of their suppliers respectively in writing of the Proposed Acquisition that the Proposed Acquisition will not affect their willingness to continue to carry on business with Swift Value on the respective distribution agreements.
- (c) Ms. Neo Siew Wah executing a written undertaking covenanting the following :
 - i. in the event the Partner Agreement between Swift Value and Hewlett-Packard ("HP") is terminated before 31 December 2017 by HP for any reason (the "Pre-Mature HPA Termination") other than a proven breach by Swift Value, Ms. Neo Siew Wah shall within seven (7) days from the date of any written notice by the Company to Ms. Neo Siew Wah, repay the Company with the Refund Amount. The Refund Amount shall refer to (a) the actual premium paid less (b) the total amount of the NPAT ("Paid and Received NPAT") which has been duly declared and approved by Swift Value in general meeting as dividends of Swift Value and paid to and received by the Company, which shall be the sum total of all dividend payments received by the Company (if any) from 1st May 2015 up to and including the date of termination of the HPA. For the avoidance of doubt, in the event the Company has not received any Paid and Received NPAT as at the date of Pre-Mature HPA Termination as aforesaid, Ms. Neo Siew Wah shall fully refund the full sum of the actual premium paid to the Company in the event of the Pre-Mature HPA Termination.
 - ii. to provide the Company a bank guarantee of the amount of S\$5 million (US\$3.7 million) which would be called upon by the Company when the event in Clause 4.3 (c)(i) arises. Should the Refund Amount exceeds S\$5 million (US\$3.7 million), Ms. Neo Siew Wah will be required to top up the difference to the Company and should the Refund Amount be less than S\$5 million (US\$3.7 million), the Company will refund Ms Teo Siew Wah the difference;
 - iii. Prior to the Proposed Acquisition, Swift Value will pay out dividends for NPAT for the period of January 2015 to April 2015; and
 - iv. Ms. Neo Siew Wah to continue employment in Swift Value for a period of not less than six (6) months after the Proposed Acquisition, and if need be and requested by the Company, for an additional three (3) months.

4.4 Covenants and Undertakings

Under the terms of the SPA, Ms. Neo Siew Wah has given amongst others, the following undertakings to the Company:

- (a) to bear all unrecorded liabilities and bad debts, inventories and assets of Swift Value which have accrued prior to the Completion Date and for which provisions have not been made in the accounts, to the Company.

5. **FINANCIAL EFFECTS**

The *pro forma* financial effects of the Proposed Acquisition, based on the audited consolidated financial statements of the Group for the financial year ended 31 December 2013, are set out below.

The *pro forma* financial effects are only presented for illustration purposes, and are not intended to reflect the actual future financial situation of the Company or the Group after completion of the Proposed Acquisition. Transaction costs for the Proposed Acquisition are ignored for computation purposes.

5.1 Net Tangible Assets

Assuming that the Proposed Acquisition was completed on 31 December 2013, the effect on the net tangible assets (“**NTA**”) per share of the Group would be as follows:

	Before the Proposed Acquisition	After the Proposed Acquisition
NTA (US\$'000)	100,896	92,646
Number of issued shares (excluding treasury shares) ('000)	895,842	895,842
NTA per share (US\$ cents)	11.26	10.34

5.2 Earnings per Share

Assuming that the Proposed Acquisition was completed on 1 January 2013, the effect on the earnings per share (“**EPS**”) of the Group would be as follows:

	Before the Proposed Acquisition	After the Proposed Acquisition
Profit attributable to shareholders (US\$'000)	11,206	11,988 ⁽¹⁾
Number of issued shares (excluding treasury shares) ('000)	895,773	895,773
EPS (US\$ cents)	1.25	1.34

Note:

- (1) As derived from the audited accounts of Swift Value for the financial year ended 31 December 2013, the net profit attributable to the Sale Shares was approximately S\$1,300,000 (US\$958,000). Borrowing costs incurred on loan undertaken to partially finance the purchase consideration was estimated at approximately US\$177,000 for the first year of drawdown.

6. RELATIVE FIGURES OF THE PROPOSED ACQUISITION UNDER CHAPTER 10 OF THE LISTING MANUAL

6.1 Relative Figures Pursuant to Rule 1006 of the Listing Manual

The relative figures in respect of the Proposed Acquisition, as computed on the bases set out in Rule 1006 of the Listing Manual and based on the latest announced unaudited consolidated financial statements of the Group for the period ended 31 December 2014, are as follows:

Bases of calculation		Size of relative figures (%)
(a)	The net asset value of the assets to be disposed of, compared with the Group's net asset value.	Not applicable ⁽¹⁾
(b)	The net profits ⁽²⁾ attributable to the assets acquired or disposed of, compared with the Group's net profits.	12.2 ⁽³⁾
(c)	The aggregate value of the consideration given or received, compared with the Company's market capitalisation ⁽⁴⁾ based on the total number of issued shares excluding treasury shares.	8.5 ⁽⁵⁾
(d)	The number of equity securities issued by the Company as consideration for an acquisition, compared with the number of equity securities previously in issue.	Not applicable
(e)	The aggregate volume or amount of proved and probable reserves to be disposed of, compared with the aggregate of the Group's proved and probable reserves ⁽⁶⁾ .	Not applicable

Notes:

- (1) This base is not applicable to an acquisition of assets.
- (2) "Net profits" means profit or loss before income tax, minority interests and extraordinary items.
- (3) Based on the unaudited net profit of Swift Value of S\$3,219,000 (US\$2,545,000) for the period ended 31 December 2014 and the Group's unaudited net profits of US\$20,857,000 for the period ended 31 December 2014.
- (4) The market capitalisation of the Company is determined by multiplying the Company's total number of issued shares of 895,841,914 (excluding treasury shares) by S\$0.1869 (US\$0.1378), being the weighted average share price of the Company's shares on 12 March 2015, being the market day preceding the date of the SPA.
- (5) Based on the Consideration payable by the Company.
- (6) This is only applicable to a disposal of mineral, oil or gas assets by a mineral, oil and gas company.

- 6.2 As the relative figure computed under Rule 1006 (b) & (c) of the Listing Manual of the Singapore Exchange Securities Trading Limited exceeds 5% but does not exceed 20%, the Proposed Acquisition constitute a discloseable transaction.

7. SERVICE AGREEMENTS

No person will be appointed to the Board in connection with the Proposed Acquisition and no service contracts in relation thereto will be entered into by the Company.

8. INTERESTS OF DIRECTORS AND CONTROLLING SHAREHOLDERS

None of the directors or controlling shareholders (as defined in the Listing Manual) of the Company has any interest, direct or indirect, in the Proposed Acquisition, other than through their respective shareholdings in the Company.

9. DOCUMENTS FOR INSPECTION

A copy of the SPA is available for inspection during normal business hours from 9 a.m. to 5 p.m. at 8 Ubi View #05-01, Serial System Building, Singapore 408554 for a period of three (3) months from the date of this announcement.

10. FURTHER ANNOUNCEMENTS

The Company will make further announcements as and when there are material developments on the Proposed Acquisition.

By Order of the Board

Dr. Derek Goh Bak Heng
Executive Chairman and Group Chief Executive Officer
13 March 2015