

CIRCULAR DATED 15 DECEMBER 2014

THIS CIRCULAR IS IMPORTANT AND REQUIRES YOUR IMMEDIATE ATTENTION.

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

Your attention is drawn to page 19 of this Circular in respect of actions to be taken if you wish to attend and vote at the Extraordinary General Meeting.

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

If you are in any doubt as to the contents herein or as to any action you should take, you should consult your stockbroker, bank manager, accountant, solicitor or other professional adviser immediately.



CIRCULAR TO SHAREHOLDERS

IN RELATION TO THE

PROPOSED ACQUISITION OF THE ENTIRE TRADING AND DISTRIBUTION BUSINESS OF GSH CORPORATION LIMITED

AS AN INTERESTED PERSON TRANSACTION

Independent Financial Adviser to the Non-Interested Directors with respect to the Proposed Acquisition as an Interested Person Transaction



IMPORTANT DATES AND TIMES

Last date and time for lodgement of Proxy Form	:	28 December 2014 at 11.00 a.m.
Date and time of Extraordinary General Meeting	:	30 December 2014 at 11.00 a.m.
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 unless otherwise stated:

Companies, Organisations and Agencies

“CDP”	:	The Central Depository (Pte) Limited
“Company”	:	Serial System Ltd
“GDC”	:	GSH Distribution (Cambodia) Pte Ltd
“GFE”	:	GSH Corporation (Far East) Pte. Ltd.
“GME”	:	GSH (Middle East) Pte Ltd
“GSHF”	:	Global Strategic Holdings Franchising Pte. Ltd.
“IFA”	:	The independent financial adviser to the Non-Interested Directors appointed in relation to the Proposed Acquisition, being Provenance Capital Pte. Ltd.
“JDK”	:	JEL Distribution (Kazakhstan) LLP
“JTB”	:	JEL Trading Bangladesh Ltd
“JVN”	:	JEL Marketing Vietnam JVC Ltd
“PwC”	:	PricewaterhouseCoopers LLP
“SGX-ST”	:	Singapore Exchange Securities Trading Limited
“SIME”	:	Serial I-Tech (ME) Pte. Ltd.
“Vendor”	:	GSH Corporation Limited

General

“Agreement”	:	The conditional sale and purchase agreement dated 9 July 2014 entered into between the Company and the Vendor in relation to the Proposed Acquisition
“Amount At Risk”	:	Has the meaning ascribed to it in paragraph 7.3 of this Circular
“Board”	:	The board of Directors of the Company as at the date of this Circular
“Business Day”	:	A day on which commercial banks are open for business in Singapore (excluding Saturdays, Sundays and gazetted public holidays)
“Companies Act”	:	The Companies Act, Chapter 50 of Singapore, as may be amended, modified or supplemented from time to time

“Completion”	:	Completion of the Proposed Acquisition in accordance with the terms of the Agreement
“Completion Date”	:	Has the meaning ascribed to it in paragraph 3.4 of this Circular
“Condition Precedent”	:	Has the meaning ascribed to it in paragraph 3.3 of this Circular
“Consideration”	:	Has the meaning ascribed to it in paragraph 3.1 of this Circular
“Circular”	:	This circular to Shareholders dated 15 December 2014
“Directors”	:	The directors of the Company as at the date of this Circular
“Dubai Property”	:	A leasehold interest in respect of premises situated at Plot S10408, Jebel Ali Free Zone, Dubai, United Arab Emirates, which is used as an office and warehouse
“EGM”	:	The extraordinary general meeting of the Company to be convened, notice of which is set out on page N-1 of this Circular
“EPS”	:	Earnings per Share
“FY”	:	The financial year ended or ending, as the case may be, 31 December
“GME Target Assets”	:	All the assets and liabilities of GME and JDK (excluding the Dubai Property)
“Group”	:	The Company and its subsidiaries, collectively
“HY”	:	The six-month financial period ended or ending, as the case may be, 30 June
“IFA Letter”	:	The letter dated 15 December 2014 from the IFA to the Non-Interested Directors in relation to the Proposed Acquisition as an Interested Person Transaction, a copy of which is attached to this Circular as Appendix A
“Latest Practicable Date”	:	The latest practicable date prior to the printing of this Circular, being 3 December 2014
“Listing Manual”	:	The Listing Manual of the SGX-ST, as may be amended, modified or supplemented from time to time
“Long-Stop Date”	:	Has the meaning ascribed to it in paragraph 3.3 of this Circular
“Market Day”	:	A day on which the SGX-ST is open for trading in securities
“Minority Shareholders”	:	Has the meaning ascribed to it in paragraph 11.1 of this Circular
“NewCo”	:	Has the meaning ascribed to it in paragraph 3.2(b)(i) of this Circular
“Non-Interested Directors”	:	The Directors who are not interested persons for the purposes of the Proposed Acquisition, being Dr. Derek Goh Bak Heng, Mr. Peter Ho I Chin, Mr. Tan Lye Heng Paul, Mr. Ravindran s/o Ramasamy and Mr. Lee Teck Leng Robson

“NTA”	:	Net tangible assets
“Parties”	:	The Company and the Vendor
“Proposed Acquisition”	:	The proposed acquisition of the entire trading and distribution business of the Vendor in the manner as set out in paragraph 1.1 of this Circular
“PwC Report”	:	Has the meaning ascribed to it in paragraph 3.1 of this Circular
“Register of Members”	:	The Register of Members of the Company
“Report Due Date”	:	Has the meaning ascribed to it in paragraph 3.1 of this Circular
“Restructuring”	:	The restructuring steps to be undertaken by the Vendor as set out in paragraph 3.2 of this Circular, in accordance with the terms and conditions of the Agreement
“Sale Shares”	:	All (and not part of) of the issued shares in the share capital of each of GSHF, GFE and SIME
“Securities Accounts”	:	Securities accounts maintained by Depositors with CDP, but not including securities accounts maintained with Depository Agents
“Shares”	:	Ordinary shares in the issued and paid-up share capital of the Company
“Shareholder Loans”	:	Loans owed by the Target Group to the Vendor or Vendor’s subsidiaries outside the Target Group
“Shareholders”	:	Registered holders of Shares, except that where the registered holder is CDP, the term “Shareholders” shall, in relation to such Shares and where the context so admits, mean the persons in the Depository Register maintained by CDP named as Depositors whose Securities Account are credited with those Shares
“Substantial Shareholder”	:	A Shareholder who has an interest in one or more voting Shares in the Company, and the total votes attached to that Share, or those Shares, is not less than five per. cent. (5%) of the total votes attached to all the voting Shares in the Company (excluding treasury shares, if any)
“Target Business”	:	Has the meaning ascribed to it in paragraph 1.1 of this Circular
“Target Group”	:	GSHF, GFE and SIME
“Target Group NAV”	:	The consolidated net asset value of the Target Group as at 30 June 2014, subject to any adjustments that may arise from the Restructuring
“Vendor’s Distribution Employees”	:	Has the meaning ascribed to it in paragraph 3.2 of this Circular
“US\$”	:	United States dollars
“S\$” and “cents”	:	Singapore dollars and cents respectively

“%” or “per cent” : Per centum or percentage

The terms “**Depositor**”, “**Depository Register**” and “**Depository Agent**” shall have the meanings ascribed to them respectively in Section 130A of the Companies Act.

The terms “**associate**” and “**controlling shareholder**” shall have the meanings ascribed to them respectively in the Listing Manual.

The terms “**subsidiary**”, “**holding company**” and “**related corporations**” shall have the meanings ascribed to them respectively in the Companies Act.

Except where specifically defined, the terms “**we**”, “**us**” and “**our**” in this Circular refer to the Group.

Words importing the singular shall, where applicable, include the plural and *vice versa*. Words importing the masculine gender shall, where applicable, include the feminine and neuter genders and *vice versa*. References to persons shall, where applicable, include corporations.

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

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 or any statutory modification thereof and not otherwise defined in this Circular shall have the same meaning assigned to it under the Companies Act or any statutory modification thereof, as the case may be.

Any reference to a time of day and date in this Circular is made by reference to Singapore time and date unless otherwise stated.

Any discrepancies in the tables in this Circular between the listed amounts and the totals thereof and/or the respective percentages are due to rounding.

CAUTIONARY NOTE REGARDING FORWARD-LOOKING STATEMENTS

Certain statements contained in this Circular, which are not statements of historical fact, constitute “forward-looking statements”. Some of these statements can be identified by forward-looking terms such as “expect”, “believe”, “plan”, “intend”, “estimate”, “anticipate”, “may”, “will”, “would”, “could” or similar words. However these words are not the exclusive means of identifying forward-looking statements. All statements regarding the Group’s expected financial position, business strategy, plans and prospects are forward-looking statements and accordingly involve known and unknown risks, uncertainties and other factors that may cause the Group’s actual results, performance and achievements to be materially different from any future results, performance or achievements expressed or implied by such forward-looking statements.

Given the risks and uncertainties which may cause the Group’s actual future results, performance or achievements to be materially different from those expected, expressed or implied by forward-looking statements in this Circular, undue reliance must not be placed on those statements. The Company does not represent or warrant that the Group’s actual future results, performance or achievements will be as discussed in those statements. Further, the Company disclaims any responsibility, and undertakes no obligation to update or revise any forward-looking statements contained in this Circular to reflect any change in the Group’s expectations with respect to such statements after the date of this Circular or to reflect any change in events, conditions or circumstances on which the Company based any such statements subject to compliance with all applicable laws and regulations and/or the rules of the SGX-ST and/or any regulatory or supervisory body or agency.

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

LETTER TO SHAREHOLDERS

Directors:

Dr. Derek Goh Bak Heng	(Executive Chairman and Group CEO)
Mr. Peter Ho I Chin	(Executive Director)
Mr. Tan Lye Heng Paul	(Non-Executive and Lead Independent Director)
Mr. Ravindran s/o Ramasamy	(Non-Executive and Independent Director)
Mr. Lee Teck Leng Robson	(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

15 December 2014

To: The Shareholders of Serial System Ltd

Dear Sir/Madam

THE PROPOSED ACQUISITION OF THE ENTIRE TRADING AND DISTRIBUTION BUSINESS OF GSH CORPORATION LIMITED AS AN INTERESTED PERSON TRANSACTION

1. INTRODUCTION

1.1. Proposed Acquisition

On 9 July 2014, the Company announced that it had entered into the Agreement pursuant to which the Company agreed to acquire the entire trading and distribution business of the Vendor ("**Target Business**") via the acquisition of the entire issued and paid-up share capital of the following entities:

- (a) GSHF;
- (b) GFE; and
- (c) SIME,

("Proposed Acquisition").

Please refer to paragraph 2 of this Circular for further information on the Vendor, the entities in the Target Group, the Target Business, and a summary of the *pro forma* financial information of the Target Group. Please refer to paragraph 3 of this Circular for the principal terms of the Proposed Acquisition.

1.2. Interested Person Transaction

The Proposed Acquisition constitutes an interested person transaction under Chapter 9 of the Listing Manual which, pursuant to Rule 906(1)(a) of the Listing Manual, is subject to the approval of Shareholders at an EGM to be convened.

Please refer to paragraph 7 of this Circular for further information on the interested person transaction.

1.3 Purpose of this Circular

The purpose of this Circular is to provide Shareholders with information relating to the Proposed Acquisition, and to seek the approval of Shareholders for the resolution in respect thereof to be tabled at the EGM.

The Notice of EGM is set out on page N-1 of this Circular.

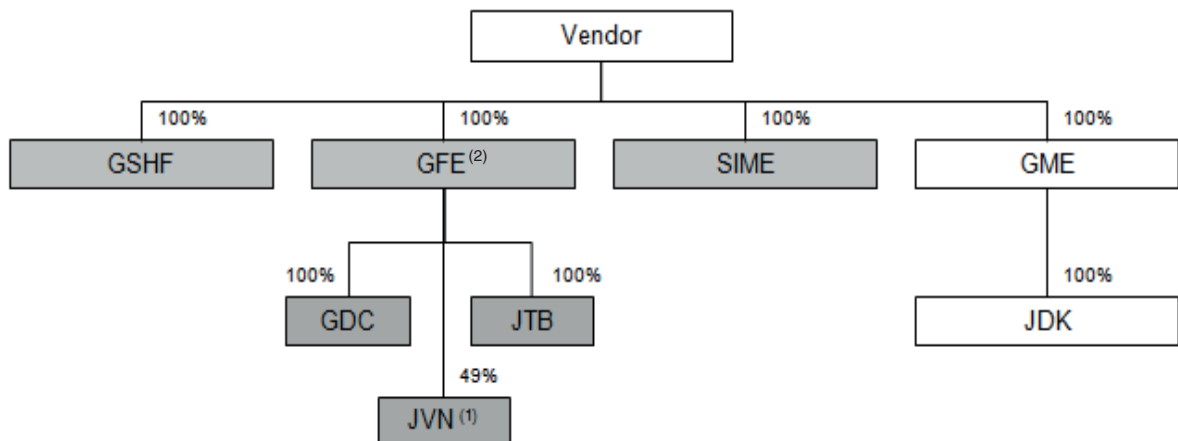
2. INFORMATION ON THE VENDOR AND THE TARGET GROUP

2.1. The Vendor

The Vendor is a company incorporated in Singapore and its shares are listed on the Main Board of the SGX-ST. The Vendor and its subsidiaries are engaged in (a) the trading and distribution of fast-moving consumer goods, IT, photographic and timepiece products; and (b) property development, investment and management, and building construction, in certain areas of Southeast Asia.

2.2. The Target Group

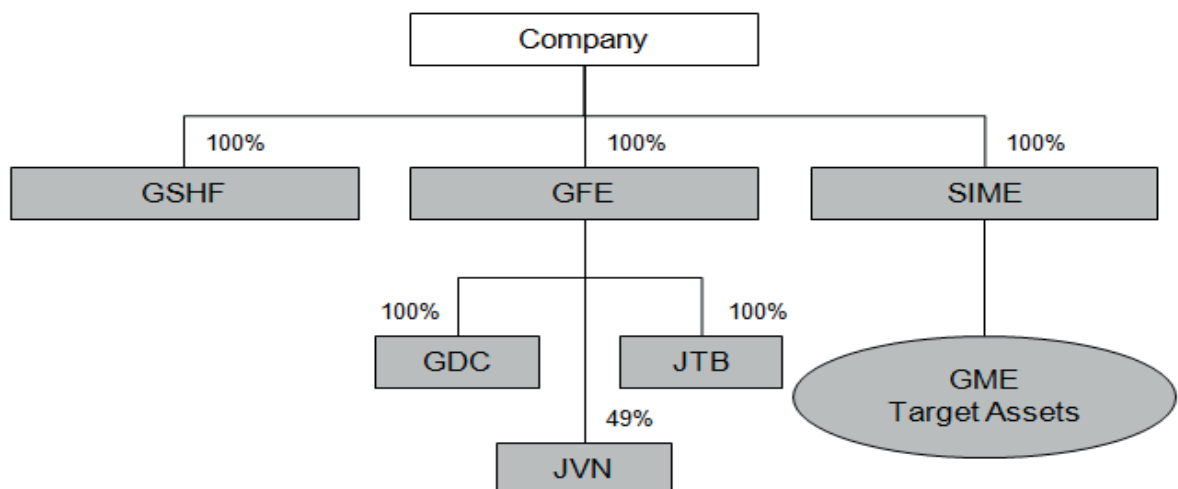
The Target Group comprises GSHF, GFE, and SIME, all of which are wholly-owned subsidiaries of the Vendor as at the Latest Practicable Date, as illustrated below:



Notes:

- (1) As at the Latest Practicable Date, the Vendor is in the process of winding up JVN as it has been dormant since its incorporation. Mr. Truong Ah Hoa, the Vendor's business partner in Vietnam, holds the other 51% equity interest in JVN. To the best of the Company's knowledge, Mr. Truong Ah Hoa is unrelated to the Directors and Substantial Shareholders.
- (2) As at the Latest Practicable Date, GFE holds 10% equity in SATCOM iCentre Ltd (dormant), an entity incorporated in Bangladesh, as an investment.

Upon Completion, the Company shall hold the entire issued and paid-up share capital of GSHF, GFE (which in turn holds GDC, JTB, 49% equity in JVN and 10% equity in SATCOM iCentre Ltd), and SIME (which holds the GME Target Assets), as illustrated below:



The only asset remaining under GME and JDK is the Dubai Property. The Parties have agreed that the Vendor will retain the Dubai Property as the Company has no real estate business and the Vendor is engaged in, *inter alia*, property development.

More information on the entities to be acquired is set out below:

<u>Entity</u>	<u>Place of incorporation/ business</u>	<u>Principal activities/ Description</u>
(a) GSHF	Singapore/ Singapore	Investment and intellectual property holding. GSHF holds the intellectual property rights to certain in-house brands in relation to photographic products.
(b) GFE	Singapore/ Singapore	Trading and distribution of fast-moving consumer goods, IT, photographic and timepiece products.
(c) GDC	Cambodia/ Cambodia	Trading and distribution of fast-moving consumer goods, consumer electronics, IT and photographic products.
(d) JTB	Bangladesh/ Bangladesh	Distribution of IT products (dormant).
(e) SIME	British Virgin Islands/ Dubai	Trading and distribution of fast-moving consumer goods, consumer electronics, IT and photographic products. SIME was incorporated by the Vendor as part of the Restructuring. On completion of the Restructuring, SIME will hold the GME Target Assets, comprising all the assets and liabilities of GME and JDK (excluding the Dubai Property). Please refer to paragraph 3.2 of this Circular for more information on the Restructuring.
(f) GME	British Virgin Islands/ Dubai	Trading and distribution of fast-moving consumer goods, consumer electronics, IT and photographic products.
(g) JDK	Kazakhstan/ Kazakhstan	Trading and distribution of fast-moving consumer goods and photographic products.
(h) JVN	Vietnam/ Vietnam	Distribution of photographic and IT products (dormant).

2.3. The Target Business

The Target Group distributes products for various brands, including Apple and Tamron, mainly on a non-exclusive basis, for terms typically ranging from 12 months to two (2) years, in various territories depending on the product in question, including Singapore, Vietnam, the Middle East, Cambodia, Bangladesh and Kazakhstan. The distribution agreements entered into by the Target Group are typically renewed or extended by mutual agreement. Products distributed by the Target Group comprise fast-moving consumer goods, IT, photographic and timepiece products, such as notebooks, tablets, mp3 players, watches, photographic lenses and related photographic accessories.

The Vendor has assisted the Company to seek consents from and/or notify the Target Group's key principals (including Apple and Tamron) regarding the Proposed Acquisition. As at the Latest Practicable Date, no objections to the Proposed Acquisition have been received by or notified to the Vendor or the Company from these key principals.

2.4. Summary of the *pro forma* financial information of the Target Group

A summary of the *pro forma* financial information of the Target Group, as derived from the management accounts of the Target Group for FY2011, FY2012, FY2013, HY2013 and HY2014 is set out below.

(US\$'000)	FY2011	FY2012	FY2013	HY2013	HY2014
Sales	100,005	104,600	89,525	50,503	38,298
Gross profit	6,581	6,389	5,621	3,179	2,280
Expenses	(4,639)	(5,360)	(5,587)	(2,685)	(2,496)
Net profit/(loss)	1,942	1,029	35	494	(216)

FY2012 versus FY2011

Sales increased by approximately 4.6% from approximately US\$100.0 million in FY2011 to approximately US\$104.6 million in FY2012. The increase in sales was due mainly to the expansion of the Target Group's IT business in Vietnam. The IT business faced stiffer competition in FY2012, resulting in lower margins recorded in FY2012 as compared to FY2011. Expenses increased by approximately 15.5% from approximately US\$4.6 million in FY2011 to approximately US\$5.4 million in FY2012, due mainly to costs associated with the expansion of the IT business in Vietnam.

FY2013 versus FY2012

Sales decreased by approximately 14.4% from approximately US\$104.6 million in FY2012 to approximately US\$89.5 million in FY2013. The lower sales was due mainly to industry consolidation of the distribution business in which the Target Group was involved in, coupled with continued keen competition in respect of the Target Group's IT and photo imaging businesses. Expenses increased by approximately 4.2% from approximately US\$5.4 million in FY2012 to approximately US\$5.6 million in FY2013, due mainly to higher operating expenses incurred for the continued expansion of the IT business in Vietnam.

HY2014 versus HY2013

Sales of approximately US\$38.3 million for HY2014 was lower as compared to sales of approximately US\$50.5 million for HY2013. The lower sales for HY2014 was due mainly to continued keen competition in respect of the Target Group's IT business. Expenses of approximately US\$2.5 million for HY2014 was lower by approximately 7.0% as compared to expenses of approximately US\$2.7 million for HY2013, due mainly to the scaling down of certain less profitable business units.

3. PRINCIPAL TERMS OF THE PROPOSED ACQUISITION

3.1. Amount Payable to the Vendor for the Proposed Acquisition

The amount payable to the Vendor for the Proposed Acquisition consists of two (2) parts: (a) the consideration payable by the Company for the Sale Shares ("**Consideration**"); and (b) Shareholder Loans after deducting fixed deposits. The Company intends to use its existing working capital and bank borrowings to fund the Proposed Acquisition.

Consideration

The Consideration was arrived at on a willing buyer, willing seller basis, taking into account, *inter alia*, the adjusted consolidated net asset value of the Target Group, the Target Group's business and operations, and the future prospects of the Target Group.

The Consideration is determined as follows:

$$\text{Consideration} = \text{Target Group NAV} + \text{US\$2.38 million}$$

where:

Target Group NAV : refers to the consolidated net asset value of the Target Group as at 30 June 2014, subject to any adjustments that may arise from the Restructuring; and

US\$2.38 million : represents the premium above the Target Group NAV.

In arriving at the premium of US\$2.38 million payable by the Company in respect of the Proposed Acquisition, the Board has considered, *inter alia*, the Target Group's financial performance, business and operations, and future prospects, and has also considered that the cost to be incurred by the Group through organic growth to replicate the established business operations of the Target Group could be much higher than such premium given the associated risks and uncertainty of success. The Board also notes that there will be continuity in management and operations, given the transfer of the Vendor's Distribution Employees to GFE (or such other company in the Target Group) as part of the Restructuring, which serves to minimise disruptions to existing operations and business relationships with key principals for the distributorships obtained by the Target Group.

Under the Agreement, the Target Group NAV is to be verified by PwC in a final verification report to be issued by PwC ("**PwC Report**") by no less than five (5) Business Days before the Completion Date ("**Report Due Date**"). In the event the PwC Report is not issued by the Report Due Date, for the purposes of determining the Consideration, the Target Group NAV shall be determined based on the management accounts of each of the companies in the Target Group as at 30 June 2014.

The Target Group NAV, as derived from the management accounts of each of the companies in the Target Group as at 30 June 2014, is US\$0.62 million. Based on the above formula, the Consideration is derived as follows:

Consideration = approximately US\$0.62 million + US\$2.38 million
= approximately US\$3.00 million

Under the Agreement, the Consideration shall be satisfied by the Company in accordance with the following payment schedule:

- (a) US\$238,000 to be paid on the signing of the Agreement (which has already been paid by the Company on 9 July 2014);
- (b) 50% of the Consideration less US\$238,000 shall be paid on the Completion Date;
- (c) 25% of the Consideration shall be paid on the date falling one (1) month from the Completion Date; and
- (d) the remaining 25% of the Consideration shall be paid on the date falling two (2) months from the Completion Date.

Shareholder Loans

Under the Agreement, subject to Completion taking place, the Company shall procure the repayment of the Shareholder Loans in accordance with the following repayment schedule:

- (a) 50% of the Shareholder Loans shall be repaid on the Completion Date;
- (b) 25% of the Shareholder Loans shall be repaid on the date falling one (1) month from the Completion Date; and
- (c) the remaining 25% of the Shareholder Loans shall be repaid on the date falling two (2) months from the Completion Date.

The aggregate amount of the Shareholder Loans to be repaid shall be based on the management accounts of the Target Group at the Completion Date or such other date as the Parties may agree, taking into consideration, the PwC Report, where applicable.

The aggregate amount of the Shareholder Loans stated in the management accounts of the Target Group will be checked against the aggregate amount of the Shareholder Loans stated in the PwC Report. If there is a material difference between the aggregate amount stated in the management accounts as compared to the aggregate amount stated in the PwC Report, the Company intends to, together with the Vendor, review the assumptions and/or adjustments used or made in arriving at the aggregate amount stated in the management accounts, with a view to agreeing separately on the aggregate amount of the Shareholder Loans to be repaid.

The Company and the Vendor have further agreed that the outstanding Shareholder Loans shall be reduced by the fixed deposits held in the Target Group as at the Completion Date, such that the Company will only be required to repay to the Vendor the net amount of outstanding Shareholder Loans as at the Completion Date.

Amount Payable to the Vendor

As the outstanding Shareholder Loans and fixed deposits held in the Target Group can only be determined at the Completion Date, the amount payable to the Vendor for the Proposed Acquisition cannot be determined at this point in time.

As at 30 September 2014, there are no fixed deposits held in the Target Group, and outstanding Shareholder Loans amount to approximately US\$11.15 million.

As an illustration, taking into account the Consideration of approximately US\$3.00 million, the amount payable to the Vendor is derived to be approximately US\$14.15 million if Completion took place on 30 September 2014.

3.2. Restructuring

The Vendor has agreed to use reasonable endeavours to procure the completion of the Restructuring prior to Completion, which involves the following:

- (a) to cause the employment of the Vendor's Distribution Employees to be employed by GFE (or such other company in the Target Group); and
- (b) to undertake the following:
 - (i) to incorporate a new subsidiary in the British Virgin Islands ("**NewCo**");
 - (ii) to undertake the application for a branch office trading licence in the Jebel Ali Free Zone by NewCo; and
 - (iii) to capitalise NewCo via the transfer of the GME Target Assets to NewCo.

"**Vendor's Distribution Employees**" refer to the employees of the Vendor, or the employees under the employment of any of the companies in the Vendor's group of companies (other than those already employed by a company in the Target Group), who are engaged in the trading and distribution business of the Vendor.

As at the Latest Practicable Date, the Restructuring is still on-going, and its status is as follows:

- (a) the Vendor's Distribution Employees who are based in Singapore have had their employment transferred to GFE. The Vendor is in the process of transferring the employment of the Vendor's Distribution Employees who are based in Dubai to GFE;
- (b) the Vendor has incorporated SIME as NewCo;
- (c) SIME has obtained a branch office trading licence in the Jebel Ali Free Zone; and
- (d) the Vendor is in the process of transferring all the GME Target Assets to SIME.

3.3. Condition Precedent

The Agreement provides for the Proposed Acquisition to be conditional upon approval from the shareholders of the Company and/or Vendor and/or the SGX-ST (to the extent required by or desirable to comply with the requirements of the SGX-ST or the Listing Manual), and such approval not being withdrawn or revoked or becoming subject to any conditions on or before the Completion Date, on or prior to the Long-Stop Date ("**Condition Precedent**").

For the purposes of this paragraph 3.3, "**Long-Stop Date**" refers to the date falling on the later of (a) 60 days from the date of the Agreement; or (b) the date of completion of the Restructuring. The Restructuring is still on-going as at the Latest Practicable Date, and more information on the same can be found in paragraph 3.2 of this Circular.

If the Condition Precedent is not satisfied or is not waived by the Parties in accordance with the terms of the Agreement, the Agreement shall *ipso facto* cease and determine as between the Parties and the obligations of the Parties under the Agreement shall terminate (save for certain surviving clauses relating to, *inter alia*, confidentiality and governing law) and in that event, the Parties shall be released and discharged from their respective obligations under the Agreement without prejudice to any antecedent breach of any obligations and liabilities under the Agreement.

As at the Latest Practicable Date, the Proposed Acquisition is conditional upon approval from Shareholders. The Vendor had on 31 July 2014 announced that the Vendor is not required to seek the approval of its shareholders for the Proposed Acquisition under Rule 1014(2) of the Listing Manual.

3.4. Completion

Completion shall take place on the date falling 10 Business Days after:

- (a) the date of completion of the Restructuring; or
- (b) the date of fulfillment of the Condition Precedent,

whichever is the later, or such date as the Company and the Vendor may mutually agree to in writing ("**Completion Date**").

Upon Completion, the Company shall hold the entire issued and paid-up share capital of GSHF, GFE, and SIME, as illustrated in paragraph 2.2 of this Circular.

4. **RATIONALE FOR THE PROPOSED ACQUISITION**

- 4.1 As at the date of this Circular, the Group is principally engaged in the distribution of electronic and electrical components. The Group has, over the years, developed in-depth distribution expertise and maintains a wide and expansive distribution network spanning the Asia-Pacific region.
- 4.2 As at the date of this Circular, the Target Group distributes fast-moving consumer goods, IT, photographic and timepiece products, such as notebooks, tablets, mp3 players, watches, photographic lenses and related photographic accessories in several countries including Singapore, Vietnam, the Middle East, Cambodia, Bangladesh and Kazakhstan. The Target Group holds distributorships for various brands as mentioned in paragraph 2.3 of this Circular.
- 4.3 The Group views the Target Group as a complementary opportunity for further expansion of the Group's business and operations, as the Target Group is also engaged in distribution:
 - (a) **Additional customers.** It is envisaged that the Target Group's distribution network will provide the Group immediate access to additional markets, thereby further increasing the Group's customer bases and global reach.
 - (b) **Additional suppliers and products for sale.** The products distributed by the Target Group will also provide the Group new supplier contacts, expand the Group's capabilities and "upstream" product lines, ranges and offerings.

- (c) **Reduced costs.** It is also envisaged that the enlarged Group (comprising the Group and the Target Group) may benefit from cost-savings generated by operational synergies and economies of scale, such as strengthened bargaining power and resource-sharing.
- (d) **Increased revenue.** The Group intends to explore opportunities involving cross-selling between the Target Group and the Group's customer databases. The enlarged Group may also be better-positioned to capitalise on any strategic opportunities which may arise in the future.

4.4 In light of the above-mentioned factors, the Board is of the view that the Proposed Acquisition is in the interests of the Group.

5. FINANCIAL EFFECTS OF THE PROPOSED ACQUISITION

The *pro forma* financial effects of the Proposed Acquisition, based on the audited consolidated financial statements of the Group for FY2013, 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 NTA per Share of the Group would be as follows:

	<u>Before the Proposed Acquisition</u>	<u>After the Proposed Acquisition</u>
NTA (US\$'000)	98,374	95,752
Number of issued Shares (excluding treasury shares) ('000)	895,842	895,842
NTA per Share (US\$ cents)	10.98	10.69

5.2. Earnings per Share

Assuming that the Proposed Acquisition was completed on 1 January 2013, the effect on the EPS of the Group would be as follows:

	<u>Before the Proposed Acquisition</u>	<u>After the Proposed Acquisition</u>
Profit attributable to Shareholders (US\$'000)	11,206	10,999
Number of issued Shares (excluding treasury shares) ('000)	895,773	895,773
EPS (US\$ cents)	1.25	1.23

5.3. Gearing

Assuming that the Proposed Acquisition was completed on 31 December 2013, the effect on the gearing of the Group would be as follows:

	<u>Before the Proposed Acquisition</u>	<u>After the Proposed Acquisition</u>
Total borrowings as at 31 December 2013 ⁽¹⁾ (US\$'000)	138,413	149,728
Cash and cash equivalents as at 31 December 2013 (US\$'000)	40,548	38,929
Net assets as at 31 December 2013 (US\$'000)	107,440	107,198
Net gearing (times) ⁽²⁾	0.91	1.03

Notes:

- (1) Based on the assumption that 80% of the amount payable to the Vendor for the Proposed Acquisition is funded by external borrowings, and the remaining 20% funded by internal resources. The amount payable to the Vendor for the Proposed Acquisition, assuming that Completion took place on 30 September 2014, is derived to be approximately US\$14.15 million.
- (2) Net gearing means total borrowings less cash and cash equivalents, divided by net assets.

6. CHAPTER 10 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 unaudited consolidated financial statements of the Group for HY2014, are as follows:

<u>Bases of calculation</u>	<u>Size (%)</u>
(a) Net Asset Value Base. The net asset value of the assets to be disposed of, compared with the Group's net asset value.	Not applicable
(b) Net Profit/Loss Base. The net loss attributable to the assets acquired of approximately US\$216,000 ⁽²⁾ , compared with the Group's net profit of approximately US\$9,322,000 for HY2014. ⁽¹⁾	(2.3)
(c) Market Capitalisation Base. The aggregate value of the consideration ⁽³⁾ to be given, of approximately US\$14.15 million, compared with the Company's market capitalisation of approximately US\$101.1 million based on the total number of issued shares excluding treasury shares as at 8 July 2014 ⁽⁴⁾ .	14.0
(d) Equity Securities Base. 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) Reserves Base. 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.	Not applicable

Notes:

- (1) "Net profit/(loss)" means profit or loss before income tax, minority interests and extraordinary items.
- (2) Based on management accounts provided by GSH Corporation Limited, the aggregate net loss attributable to the Target Group is approximately US\$216,000 for HY2014.
- (3) For the purposes of determining the relative figure under Rule 1006(c) of the Listing Manual, the consideration given is taken to be the amount payable to the Vendor for the Proposed Acquisition assuming that Completion takes place on 30 September 2014, which is derived to be approximately US\$14.15 million.
- (4) The market capitalisation of the Company is determined by multiplying the Company's total number of issued Shares of 895,841,914 (excluding 9,946,000 treasury shares) by S\$0.1409 (approximately US\$0.1128 based on an exchange rate of US\$1:S\$1.2492), being the weighted average share price of the Company's Shares on 8 July 2014, the Market Day preceding the date of the Agreement.

7. THE PROPOSED ACQUISITION AS AN INTERESTED PERSON TRANSACTION

- 7.1. Mr. Goi Kok Neng Ben is a non-executive director of the Company. He is the son of Mr. Goi Seng Hui, who, as at the Latest Practicable Date, has an interest in 4,677,799,976 shares of the Vendor (representing approximately 47.32% of the total issued and paid-up share capital of the Vendor) and the sibling of Mr. Goi Kok Ming Kenneth, an executive director of the Vendor. The Vendor is, accordingly, an "associate" of Mr. Goi Kok Neng Ben, and an "interested person" vis-à-vis the Company. The Proposed Acquisition thus constitutes an "interested person transaction" for the purposes of Chapter 9 of the Listing Manual.
- 7.2. Based on the latest audited consolidated financial statements of the Group for FY2013, the audited consolidated NTA of the Group was approximately US\$98.37 million.
- 7.3. The value of the Proposed Acquisition, for the purposes of Chapter 9 of the Listing Manual, is the amount payable to the Vendor for the Proposed Acquisition (comprising the Consideration and Shareholder Loans after deducting fixed deposits) ("**Amount at Risk**"). The Amount at Risk, as at 30 September 2014, is approximately US\$14.15 million, representing approximately 14.4% of the latest audited consolidated NTA of the Group of approximately US\$98.37 million as at 31 December 2013.
- 7.4. As the Amount at Risk exceeds five per. cent. (5%) of the latest audited consolidated NTA of the Group as at 31 December 2013, the Proposed Acquisition is an "interested person transaction" which is subject to the approval of Shareholders at an EGM to be convened pursuant to Rule 906(1)(a) of the Listing Manual.
- 7.5. Save for the Proposed Acquisition, as at the Latest Practicable Date, there were no other transactions of a value above S\$100,000 entered into with any interested person(s) in the current financial year ending 31 December 2014.

8. INTERESTS OF DIRECTORS AND SUBSTANTIAL SHAREHOLDERS

- 8.1. As at the Latest Practicable Date, the interests of Directors and Substantial Shareholders in the Shares, based on the Company's register of interest of Directors and register of Substantial Shareholders respectively, are as follows:

	Direct Interest		Deemed Interest ⁽¹⁾		Total Interest	
	No. of Shares	% ⁽³⁾	No. of Shares	% ⁽³⁾	No. of Shares	% ⁽³⁾
Directors						
Derek Goh Bak Heng	347,838,698	38.83	-	-	347,838,698	38.83
Peter Ho I Chin	500,000	0.06	-	-	500,000	0.06
Tan Lye Heng Paul	197,000	0.02	-	-	197,000	0.02
Ravindran s/o Ramasamy	-	-	-	-	-	-
Lee Teck Leng Robson	-	-	-	-	-	-
Goi Kok Neng Ben	-	-	-	-	-	-

	Direct Interest		Deemed Interest ⁽¹⁾		Total Interest	
	No. of Shares	% ⁽³⁾	No. of Shares	% ⁽³⁾	No. of Shares	% ⁽³⁾
Substantial Shareholders (who are not Directors)						
Goi Seng Hui	98,741,038	11.02	24,862,800 ⁽²⁾	2.78	123,603,838	13.80

Notes:

- (1) Deemed interests refer to interests in shares as defined pursuant to Section 7 of the Companies Act.
- (2) Mr. Goi Seng Hui is deemed to have an interest in 24,862,800 shares held by Tee Yih Jia Food Manufacturing Pte Ltd by virtue of Section 7 of the Companies Act.
- (3) “%” is based on 895,841,914 issued Shares (excluding 9,946,000 treasury shares) as at the Latest Practicable Date.

- 8.2. Save as disclosed in this Circular and to the best of the knowledge of the Directors, none of the Directors or Substantial Shareholders has any interest, direct or indirect, in the Proposed Acquisition (other than in his/its capacity as a director or shareholder of the Company).

9. ABSTENTION FROM VOTING

- 9.1. In accordance with Rule 921(7) of the Listing Manual, Mr. Goi Seng Hui shall abstain, and has undertaken to ensure that his associates (including Mr. Goi Kok Neng Ben and the Vendor in respect of their Shares (if any)) will abstain, from voting on the ordinary resolution relating to the Proposed Acquisition.
- 9.2. Mr. Goi Seng Hui and his associates (including Mr. Goi Kok Neng Ben and the Vendor), being interested persons, shall decline to accept appointment as proxy for any Shareholder to vote in respect of the ordinary resolution relating to the Proposed Acquisition unless the Shareholder concerned shall have given specific instructions as to the manner in which his votes are to be cast.

10. UNDERTAKING TO VOTE IN FAVOUR OF THE PROPOSED ACQUISITION

Dr. Derek Goh Bak Heng, the Executive Chairman and Group CEO of the Group, and a controlling shareholder who holds 38.83% of the shareholdings in the Company, has provided an undertaking to the Vendor to, *inter alia*, vote in favour of the Proposed Acquisition at the EGM.

11. ADVICE OF THE INDEPENDENT FINANCIAL ADVISER TO THE NON-INTERESTED DIRECTORS

- 11.1. Provenance Capital Pte. Ltd. has been appointed as the IFA to render an opinion on whether the Proposed Acquisition, as an interested person transaction under Chapter 9 of the Listing Manual, is on normal commercial terms and is not prejudicial to the interests of the Company and its independent Shareholders (“**Minority Shareholders**”).
- 11.2. A copy of the IFA Letter from Provenance Capital Pte. Ltd. to the Non-Interested Directors setting out its advice in respect of the Proposed Acquisition as an Interested Person Transaction is set out in **Appendix A** to this Circular and Shareholders are advised to read the IFA Letter carefully.
- 11.3. **Based on the considerations set out in the IFA Letter, the IFA is of the opinion that the Proposed Acquisition, as an interested person transaction under Chapter 9 of the Listing Manual, is on normal commercial terms and is not prejudicial to the interests of the Company and the Minority Shareholders.**

12. AUDIT COMMITTEE OPINION

The Audit Committee having considered, *inter alia*, the terms, financial effects and rationale for the Proposed Acquisition, and after discussions with the management of the Company and the IFA, is of the view that the Proposed Acquisition, as an interested person transaction under Chapter 9 of the Listing Manual, is on normal commercial terms and is not prejudicial to the interests of

the Company and the Minority Shareholders. Accordingly, the Audit Committee recommends that Shareholders vote in favour of the ordinary resolution to approve the Proposed Acquisition as set out in the Notice of EGM on page N-1 of this Circular.

13. DIRECTORS' RECOMMENDATION

- 13.1. The Non-Interested Directors having considered, *inter alia*, the terms, financial effects and rationale of the Proposed Acquisition and taking into consideration the IFA Letter and the opinion of the Audit Committee, are of the view that the Proposed Acquisition is in the interests of the Company. The Non-Interested Directors accordingly recommend that the Shareholders vote in favour of the ordinary resolution to approve the Proposed Acquisition as set out in the Notice of EGM on page N-1 of this Circular.
- 13.2. Mr. Goi Kok Neng Ben, being a Director deemed interested in the Proposed Acquisition, has abstained from making any recommendation as to how Shareholders should vote in respect of the ordinary resolution to approve the Proposed Acquisition. He has also abstained from expressing any views in the rationale for the Proposed Acquisition.
- 13.3. The Non-Interested Directors advise the Shareholders, in deciding whether to vote in favour of the Proposed Acquisition, to carefully consider the IFA Letter and in particular, the various factors highlighted by the IFA in the IFA Letter, which is set out in **Appendix A** to this Circular. In giving the above recommendation, the Non-Interested Directors have not had regard to the general or specific investment objectives, financial situation, tax position or unique needs and constraints of any individual Shareholder. As each Shareholder would have different investment objectives and profiles, the Non-Interested Directors recommend that any individual Shareholder who may require specific advice in relation to his investment portfolio should consult his stockbroker, bank manager, solicitor, accountant, tax adviser or other professional advisers immediately.

14. EXTRAORDINARY GENERAL MEETING

- 14.1. The EGM will be held at 8 Ubi View, #05-01, Serial System Building, Singapore 408554, on 30 December 2014 at 11.00 a.m. for the purpose of considering and, if thought fit, passing with or without any modifications, the ordinary resolution set out in the Notice of EGM, which is set out on page N-1 of this Circular.
- 14.2. A Depositor shall not be regarded as a Shareholder entitled to attend the EGM and to speak and vote thereat unless he is shown to have Shares entered against his name in the Depository Register, as certified by CDP as at 48 hours before the EGM.

15. ACTIONS TO BE TAKEN BY SHAREHOLDERS

Shareholders will find enclosed with this Circular, the Notice of EGM and a Proxy Form. If a Shareholder is unable to attend the EGM and wishes to appoint a proxy to attend and vote on his behalf, he should complete, sign and return the attached Proxy Form in accordance with the instructions printed thereon as soon as possible and, in any event, so as to reach the registered office of the Company not less than 48 hours before the time fixed for the EGM. Completion and return of the Proxy Form by a Shareholder will not preclude him from attending and voting at the EGM if he so wishes. An appointment of a proxy or proxies shall be deemed to be revoked if a Shareholder attends the EGM in person and, in such event, the Company reserves the right to refuse to admit any person or persons appointed under the Proxy Form to the EGM.

16. DIRECTORS' RESPONSIBILITY STATEMENTS

Save for (a) the IFA Letter; and (b) information on the Vendor and the Target Group, 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 Acquisition, the Company and its subsidiaries, and the Directors are not aware of any facts the omission of which would make any statement in this Circular misleading.

In respect of the IFA Letter, the sole responsibility of the Directors has been to ensure that the facts stated therein with respect to the Group are, to the best of their knowledge and belief, fair and accurate in all material respects.

Where any information in this Circular has been extracted from published or otherwise publicly available sources or obtained from the Vendor, 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.

17. CONSENT

The IFA has given and has not withdrawn its written consent to the issue of this Circular with the inclusion herein of its name and the IFA Letter and all references thereto, in the form and context in which they appear in this Circular and to act in such capacity in relation to this Circular.

18. DOCUMENTS AVAILABLE FOR INSPECTION

Copies of the following documents are available for inspection at the registered office of the Company at 8 Ubi View, #05-01, Serial System Building, Singapore 408554, during normal business hours up to and including the date of the EGM:

- (a) the Agreement;
- (b) the IFA Letter; and
- (c) the letter of consent dated 15 December 2014 from the IFA.

Yours faithfully

For and on behalf of
the Board of Directors of
SERIAL SYSTEM LTD

DR. DEREK GOH BAK HENG
Executive Chairman and Group CEO
15 December 2014

**APPENDIX A – LETTER FROM PROVENANCE CAPITAL PTE. LTD. TO THE NON-INTERESTED DIRECTORS
IN RELATION TO THE PROPOSED ACQUISITION AS AN INTERESTED PERSON TRANSACTION**

PROVENANCE CAPITAL PTE. LTD.

(Company Registration Number: 200309056E)
(Incorporated in the Republic of Singapore)
96 Robinson Road #13-01 SIF Building
Singapore 068899

15 December 2014

To: The Non-Interested Directors of Serial System Ltd
(deemed to be independent in respect of the Proposed Acquisition)

Dr Derek Goh Bak Heng	(Executive Chairman and Group CEO)
Mr Peter Ho I Chin	(Executive Director)
Mr Tan Lye Heng Paul	(Non-Executive and Lead Independent Director)
Mr Ravindran s/o Ramasamy	(Non-Executive and Independent Director)
Mr Lee Teck Leng Robson	(Non-Executive and Independent Director)

Dear Sirs,

**THE PROPOSED ACQUISITION OF THE ENTIRE TRADING AND DISTRIBUTION BUSINESS OF
GSH CORPORATION LIMITED AS AN INTERESTED PERSON TRANSACTION**

Unless otherwise defined or the context otherwise requires, all terms used herein have the same meanings as defined in the circular to the Shareholders of the Company dated 15 December 2014 ("Circular").

1. INTRODUCTION

- 1.1** On 9 July 2014 ("**Announcement Date**"), Serial System Ltd ("**Company**") announced that it had entered into a conditional sale and purchase agreement ("**SPA**") with GSH Corporation Limited ("**Vendor**"), a company listed on the SGX-ST, to acquire the entire trading and distribution business of the Vendor ("**Proposed Acquisition**").

The Proposed Acquisition involves the acquisition of:

- (a) 100% of the issued and paid up share capital of Global Strategic Holdings Franchising Pte. Ltd. ("**GSHF**");
- (b) 100% of the issued and paid-up share capital of GSH Corporation (Far East) Pte. Ltd. ("**GFE**"); and
- (c) 100% of the issued and paid-up share capital of a new wholly-owned subsidiary of the Vendor to be incorporated ("**NewCo**"), which shall hold the GME Target Assets (as described in paragraph 3.1 of this Letter),

(collectively referred to as the "**Target Group**").

NewCo has since been incorporated under the name of Serial I-Tech (ME) Pte. Ltd. ("**SIME**"). As at the Latest Practicable Date, the restructuring exercise ("**Restructuring**") for, *inter alia*, NewCo to hold the GME Target Assets is still in progress.

Pursuant to the SPA, the Company will, *inter alia*, (a) pay to the Vendor cash consideration ("**Consideration**") based on the aggregate of the consolidated net asset value ("**NAV**") of the Target Group as at 30 June 2014 and a premium of US\$2.38 million ("**Premium**"); and (b) procure the repayment of all outstanding loans owed by the Target Group to the Vendor and its subsidiaries ("**Shareholders' Loans**") based on the management accounts of the Target Group at the Completion Date or such other date as the parties may agree. We understand from the Company that the Company and the Vendor have further agreed that the outstanding

Shareholders' Loans shall be reduced by the fixed deposit held in the Target Group, if any, as at the Completion Date, such that the Company will only be required to repay to the Vendor the net amount of outstanding Shareholders' Loans as at the Completion Date.

As an illustration, as at 30 June 2014, the unaudited proforma NAV of the Target Group was approximately US\$0.62 million, Shareholders' Loans amounted to US\$32.25 million and fixed deposit was US\$20.68 million. Hence, after taking into account the Premium, the total amount payable by the Company to the Vendor is approximately US\$14.56 million.

- 1.2 Mr Goi Kok Neng Ben, who is a non-executive director of the Company, is the son of Mr Goi Seng Hui, who is the controlling shareholder and executive chairman of the Vendor, and the sibling of Mr Goi Kok Ming Kenneth, who is an executive director of the Vendor. As at the Latest Practicable Date, Mr Goi Seng Hui has a direct interest in 47.32% of the total issued shares of the Vendor, and direct and indirect interests in 13.80% of the total issued shares of the Company.

Accordingly, Mr Goi Kok Neng Ben is deemed an associate of the Vendor and thus deemed an interested person as defined under Chapter 9 of the Listing Manual ("**Interested Person**"). The Proposed Acquisition is therefore deemed an interested person transaction ("**Interested Person Transaction**").

- 1.3 In accordance with Chapter 9 of the Listing Manual, shareholders' approval must be obtained for any Interested Person Transaction of a value which is equal to or greater than 5.0% of the Group's latest audited net tangible assets ("**NTA**") or when aggregated with other Interested Person Transaction during the same financial period, the value is equal to or more than 5.0% of the Group's latest audited NTA. In obtaining such approval, pursuant to Rule 919 of the Listing Manual, the Interested Person and its associates are required to abstain from voting on the resolution approving the Interested Person Transaction.

- 1.4 Based on the latest audited consolidated accounts of the Company and its subsidiaries ("**Group**") for the financial year ended 31 December 2013, the Group's audited NTA amounted to approximately US\$98.37 million as at 31 December 2013. Based on the financial position of the Target Group as at 30 June 2014, the aggregate amount payable by the Company for the Proposed Acquisition would amount to US\$14.56 million, representing approximately 14.80% of the Group's latest audited NTA. As such, the Proposed Acquisition, being an Interested Person Transaction, is subject to the approval of the Company's independent shareholders ("**Independent Shareholders**" or "**Minority Shareholders**") at an extraordinary general meeting ("**EGM**") to be convened.

Mr Goi Kok Neng Ben, being an associate of the Vendor, will abstain from making any recommendation on the Proposed Acquisition as a director of the Company. Hence, only the remaining directors, namely, Dr Derek Goh Bak Heng, Mr Peter Ho I Chin, Mr Tan Lye Heng Paul, Mr Ravindran s/o Ramasamy and Mr Lee Teck Leng Robson are deemed to be independent in respect of the Proposed Acquisition ("**Non-Interested Directors**").

- 1.5 Provenance Capital Pte. Ltd. ("**Provenance Capital**") has been appointed as the independent financial adviser ("**IFA**") to render an opinion on whether the Proposed Acquisition as an Interested Person Transaction is on normal commercial terms and is not prejudicial to the interests of the Company and the Minority Shareholders. This letter ("**Letter**") is addressed to the Non-Interested Directors and sets out, *inter alia*, our evaluation and opinion on the Proposed Acquisition as an Interested Person Transaction. This Letter forms part of the Circular to Shareholders which provides, *inter alia*, the details of the Proposed Acquisition and the recommendation of the Non-Interested Directors thereon.

2. TERMS OF REFERENCE

We have been appointed as the IFA to advise the Non-Interested Directors in respect of the Proposed Acquisition as an Interested Person Transaction. We are not and were not involved or responsible, in any aspect, of the negotiations in relation to the Proposed Acquisition nor

were we involved in the deliberations leading up to the decision on the part of the Directors to propose the Proposed Acquisition, and we do not, by this Letter, warrant the merits of the Proposed Acquisition other than to express an opinion on whether the Proposed Acquisition as an Interested Person Transaction is on normal commercial terms and is not prejudicial to the interests of the Company and the Minority Shareholders.

It is not within our terms of reference to evaluate or comment on the legal, strategic, commercial and financial merits and/or risks of the Proposed Acquisition or to compare their relative merits *vis-à-vis* alternative transactions previously considered by the Company (if any) or that may otherwise be available to the Company currently or in the future, and we have not made such evaluation or comment. Such evaluation or comment, if any, remains the sole responsibility of the Directors and/or the management of the Company ("**Management**") although we may draw upon the views of the Directors and/or the Management or make such comments in respect thereof (to the extent deemed necessary or appropriate by us) in arriving at our opinion as set out in this Letter.

In the course of our evaluation, we have held discussions with the Directors and Management and/or their professional advisers and have examined and relied on publicly available information collated by us as well as information provided and representations made to us, both written and verbal, by the Directors, the Management and the professional advisers of the Company, including information contained in the Circular. We have not independently verified such information or representations, whether written or verbal, and accordingly cannot and do not make any representation or warranty, express or implied, in respect of, and do not accept any responsibility for the accuracy, completeness or adequacy of such information or representations.

The Directors (including those who may have delegated detailed supervision of the Circular) have confirmed that, having made all reasonable enquiries, to the best of their respective knowledge and belief, information and representations as provided by the Directors and Management are accurate and have confirmed to us that, upon making all reasonable enquiries and to their best knowledge and beliefs, all material information available to them in connection with the Proposed Acquisition, the Company, the Group and the Target Group have been disclosed to us, that such information is true, complete and accurate in all material respects and that there is no other information or fact, the omission of which would cause any information disclosed to us or the facts of or in relation to the Proposed Acquisition or the Group or the Target Group stated in the Circular to be inaccurate, incomplete or misleading in any material respect. The Directors have jointly and severally accepted full responsibility for such information described herein.

We have not independently verified and have assumed that all statements of fact, belief, opinion and intention made by the Directors in the Circular in relation to the Proposed Acquisition have been reasonably made after due and careful enquiry. Whilst care has been exercised in reviewing the information on which we have relied on, we have not independently verified the information but nevertheless have made such reasonable enquiries and judgment as were deemed necessary and have found no reason to doubt the accuracy of the information and representations.

Save as disclosed, we would like to highlight that all information relating to the Proposed Acquisition, the Company, the Group and the Target Group that we have relied upon in arriving at our recommendation or advice has been obtained from publicly available information and/or from the Directors and the Management. We have not independently assessed and do not warrant or accept any responsibility as to whether the aforesaid information adequately represents a true and fair position of the financial, operational and business affairs of the companies involved in the Proposed Acquisition, the Company, the Group or the Target Group at any time or as at 3 December 2014, being the Latest Practicable Date.

The scope of our appointment does not require us to conduct a comprehensive independent review of the business, operations or financial condition of the companies involved in the Proposed Acquisition, the Company and/or the Group, or to express, and we do not express,

a view on the future growth prospects, value and earnings potential of the Company and/or the Group after the Proposed Acquisition. Such review or comment, if any, remains the responsibility of the Directors and the Management, although we may draw upon their views or make such comments in respect thereof (to the extent required by the Listing Manual and/or deemed necessary or appropriate by us) in arriving at our advice as set out in this Letter. We have not obtained from the Company and/or the Group any projection of the future performance including financial performance of the Target Group, the Company and/or the Group and further, we did not conduct discussions with the Directors and the Management on, and did not have access to, any business plan and financial projections of the Target Group, the Company and/or the Group. In addition, we are not expressing any view herein as to the prices at which the Shares may trade or the future value, financial performance or condition of the Company and/or the Group, upon or after the Proposed Acquisition.

We have not made an independent evaluation or appraisal of the assets and liabilities of the Target Group, the Company and/or the Group (including without limitation, property, plant and equipment). As such, we will be relying on the disclosures and representations made by the Company on the value of the assets and liabilities and profitability of the Target Group, the Company and/or the Group. We have not been furnished with any such evaluation or appraisal. We have not relied on any financial projections or forecasts in respect of the Group for the purpose of our evaluation of the Proposed Acquisition.

Pursuant to the SPA, the NAV of the Target Group as at 30 June 2014 will be verified by a final verification report ("**PwC Report**") to be issued by PricewaterhouseCoopers LLP in no less than 5 business days before the Completion Date, failing which, the NAV shall be determined based on the management accounts of each of the companies in the Target Group as at 30 June 2014. As at the Latest Practicable Date, the PwC Report is not made available to us.

Our view as set out in this Letter is based upon the market, economic, industry, monetary and other conditions (if applicable) prevailing as of the Latest Practicable Date and the information provided and representations provided to us as of the Latest Practicable Date. In arriving at our view, with the consent of the Directors or the Company, we have taken into account certain other factors and have been required to make certain assumptions as set out in this Letter. We assume no responsibility to update, revise or reaffirm our opinion in light of any subsequent development after the Latest Practicable Date that may affect our opinion contained herein. Shareholders should further take note of any announcements relevant to Proposed Acquisition which may be released by the Company after the Latest Practicable Date.

In rendering our advice and giving our recommendations, we did not have regard to the specific investment objectives, financial situation, tax position, risk profiles or unique needs and constraints of any Minority Shareholder or any specific group of the Minority Shareholders. As each Minority Shareholder would have different investment objectives and profiles, we recommend that any individual Minority Shareholder or group of the Minority Shareholders who may require specific advice in relation to his or their investment portfolio(s) or objective(s) consult his or their stockbroker, bank manager, solicitor, accountant, tax adviser or other professional adviser immediately.

The Company has been separately advised by its own professional advisers in the preparation of the Circular (other than this Letter). We have had no role or involvement and have not and will not provide any advice (financial or otherwise) in the preparation, review and verification of the Circular (other than this Letter). Accordingly, we take no responsibility for and express no views, whether express or implied, on the contents of the Circular (other than this Letter).

Whilst a copy of this Letter may be reproduced in the Circular, neither the Company, the Directors nor any other persons may reproduce, disseminate or quote this Letter (or any part thereof) for any purposes other than for the purposes of the Shareholders' resolution in relation to the Proposed Acquisition as an Interested Person Transaction at any time and in any manner without the prior written consent of Provenance Capital in each specific case.

We have prepared this Letter for the use of the Non-Interested Directors in connection with their consideration of the Proposed Acquisition as an Interested Person Transaction and their advice to the Minority Shareholders arising thereof. The recommendations made to the Minority Shareholders in relation to the Proposed Acquisition as an Interested Person Transaction remain the sole responsibility of the Non-Interested Directors.

Our opinion in relation to the Proposed Acquisition should be considered in the context of the entirety of this Letter and the Circular.

3. THE PROPOSED ACQUISITION

3.1 The Target Group

Pursuant to the SPA, the Company will acquire the Target Group, being the entire trading and distribution business of the Vendor, via the acquisition of:

- (a) 100% of the issued and paid up share capital of GSHF;
- (b) 100% of the issued and paid-up share capital of GFE, which in turn holds 2 wholly-owned subsidiaries, GSH Distribution (Cambodia) Pte Ltd ("**GDC**"), an entity incorporated in Cambodia, and JEL Trading Bangladesh Ltd ("**JTB**"), an entity incorporated in Bangladesh, collectively referred to as the **GFE Group**⁽¹⁾; and
- (c) 100% of the issued and paid-up share capital of NewCo which shall hold the GME Target Assets, as described below.

Note:

- (1) GFE presently owns 49% of JEL Marketing Vietnam JVC Ltd ("**JVN**"), an entity incorporated in Vietnam, and 10% of SATCOM iCentre Ltd, an entity incorporated in Bangladesh, both of which are dormant. As at the Latest Practicable Date, the Vendor is in the process of winding up JVN.

GME Target Assets

GSH (Middle East) Pte Ltd ("**GME**") holds 100% of the issued and paid share capital of JEL Distribution (Kazakhstan) LLP ("**JDK**"), an entity incorporated in Kazakhstan, collectively referred to as the GME Group.

In the Restructuring to be carried out by the Vendor, all the assets and liabilities of GME and JDK (excluding the leasehold property in Dubai ("**Dubai Property**")) ("**GME Target Assets**") shall be transferred to NewCo.

On 12 August 2014, Serial I-Tech (ME) Pte. Ltd. ("**SIME**") was incorporated in the British Virgin Islands as the NewCo for the purpose of the restructuring exercise to hold the GME Target Assets. As at the Latest Practicable Date, the Restructuring for SIME to hold the GME Target Assets is still on-going.

The Target Group is engaged in the trading and distribution of fast moving consumer goods, IT, photographic and timepiece products. The Target Group has been awarded distribution rights for products carrying various reputable brands, such as Apple and Tamron and for various territories which may vary with the products and brands including Singapore, Vietnam, the Middle East, Cambodia, Bangladesh and Kazakhstan.

3.2 Amount payable to the Vendor for the Proposed Acquisition

The amount payable to the Vendor for the Proposed Acquisition consists of two parts: (a) Consideration and (b) Shareholders' Loans after deducting fixed deposits. The Company intends to use its existing working capital and bank borrowings to fund the Proposed Acquisition.

Consideration

The Consideration was arrived at on a willing buyer, willing seller basis, taking into account, *inter alia*, the adjusted consolidated net asset value of the Target Group, the Target Group's business and operations, and the future prospects of the Target Group.

The Consideration is determined as follows:

$$\text{Consideration} = \text{NAV} + \text{US\$2.38 million}$$

where:

- NAV refers to the consolidated NAV of the Target Group as at 30 June 2014, subject to any adjustments that may arise from the Restructuring; and
- US\$2.38 million represents the Premium above the NAV.

Based on the financial information of the Target Group provided by the Vendor, the unaudited proforma NAV of the Target Group as at 30 June 2014 was US\$0.62 million. Based on the above formula, the Consideration is derived as follows:

$$\begin{aligned}\text{Consideration} &= \text{US\$0.62 million} + \text{US\$2.38 million} \\ &= \text{US\$3.00 million}\end{aligned}$$

Pursuant to the SPA, the Consideration to be paid to the Vendor is based on the following payment schedule:

- (a) US\$238,000 of the Consideration to be paid on the date of the SPA (which has already been paid by the Company on 9 July 2014);
- (b) 50% of the Consideration less US\$238,000 shall be paid on the Completion Date;
- (c) 25% of the Consideration shall be paid on the date falling one (1) month from the Completion Date; and
- (d) the remaining 25% of the Consideration shall be paid on the date falling two (2) months from the Completion Date.

Shareholders' Loans

Pursuant to the SPA, the Company shall procure the repayment of the Shareholders' Loans as follows:

- (a) 50% of the Shareholders' Loans shall be repaid on the Completion Date;
- (b) 25% of the Shareholders' Loans shall be repaid on the date falling one (1) month from the Completion Date; and
- (c) the remaining 25% of the Shareholders' Loans shall be repaid on the date falling two (2) months from the Completion Date.

The aggregate amount of the Shareholders' Loans to be repaid shall be based on the management accounts of the Target Group at the Completion Date or such other date as the Company and the Vendor may agree, taking into consideration, the PwC Report, where applicable.

The aggregate amount of the Shareholders' Loans stated in the management accounts of the Target Group will be checked against the aggregate amount of the Shareholders' Loans stated in the PwC Report. If there is a material difference between the aggregate amount stated in the management accounts as compared to the aggregate amount stated in the PwC Report, the Company intends to, together with the Vendor, review the assumptions and/or adjustments used or made in arriving at the aggregate amount stated in the management accounts, with a view to agreeing separately on the aggregate amount of the Shareholders' Loans to be repaid.

We understand from the Company that the Company and the Vendor have further agreed that the outstanding Shareholders' Loans shall be reduced by the fixed deposits held in the Target Group as at the Completion Date, such that the Company will only be required to procure to repay to the Vendor the net amount of outstanding Shareholders' Loans as at the Completion Date.

As the outstanding Shareholders' Loans and fixed deposits in the Target Group can only be determined at the Completion Date, the amount payable to the Vendor for the Proposed Acquisition cannot be determined at this point in time.

As an illustration based on the financial information of the Target Group as at 30 June 2014, the amount payable by the Company to the Vendor for the Proposed Acquisition is estimated to be as follows:

(US\$'000)	Target Group as at 30 June 2014	
Proforma NAV	615	
Add: Premium	2,380	
Consideration	2,995	
Add: Shareholders' Loans	32,245	
Less: Fixed deposits	(20,677)	
Net Shareholders' Loans	11,568	
Amount payable for the Proposed Acquisition	14,563 *	

* This is before taking into account the partial payment of US\$238,000 for the Consideration on the date of the SPA, as this affects only the amount of scheduled payment for the Proposed Acquisition.

As at 30 September 2014, there were no fixed deposits held in the Target Group, and the outstanding Shareholders' Loans were reduced to approximately US\$11.15 million.

As an illustration, assuming that the Completion took place on 30 September 2014, taking into account the Consideration of approximately US\$3.00 million and the net Shareholders' Loans of US\$11.15 million as at 30 September 2014, the amount payable to the Vendor is approximately US\$14.15 million.

Further details of the Proposed Acquisition, the Target Group and related matters are set out in Sections 2 and 3 of the Circular.

4. EVALUATION OF THE PROPOSED ACQUISITION

In our evaluation of the Proposed Acquisition, we have given due consideration to, *inter alia*, the following key factors:

- (a) rationale for the Proposed Acquisition;
- (b) analysis of selected financial information of the Target Group;
- (c) evaluation of the amount payable for the Proposed Acquisition;
- (d) financial effects of the Proposed Acquisition; and
- (e) other relevant considerations.

4.1 Rationale for the Proposed Acquisition

It is not within our terms of reference to comment or express an opinion on the merits of the Proposed Acquisition or the future prospects of the Group after the Proposed Acquisition. Nevertheless, we have reviewed the rationale for the Proposed Acquisition. The full text of the rationale for the Proposed Acquisition is set out in Section 4 of the Circular and reproduced in italics below for your reference:

"4. RATIONALE FOR THE PROPOSED ACQUISITION

- 4.1 *As at the date of this Circular, the Group is principally engaged in the distribution of electronic and electrical components. The Group has, over the years, developed in-depth distribution expertise and maintains a wide and expansive distribution network spanning the Asia-Pacific region.*
- 4.2 *As at the date of this Circular, the Target Group trades and distributes fast-moving consumer goods, IT, photographic and timepiece products, such as notebooks, tablets, mp3 players, watches, photographic lenses and related photographic accessories in several countries including Singapore, Vietnam, the Middle East, Cambodia, Bangladesh and Kazakhstan. The Target Group holds distributorships for various brands as mentioned in paragraph 2.3 of this Circular.*
- 4.3 *The Group views the Target Group as a complementary opportunity for further expansion of the Group's business and operations, as the Target Group is also engaged in distribution:*
 - (a) **Additional customers.** *It is envisaged that the Target Group's distribution network will provide the Group immediate access to additional markets, thereby further increasing the Group's customer bases and global reach.*
 - (b) **Additional suppliers and products for sale.** *The products distributed by the Target Group will also provide the Group new supplier contacts, expand the Group's capabilities and "upstream" product lines, ranges and offerings.*
 - (c) **Reduced costs.** *It is also envisaged that the enlarged Group (comprising the Group and the Target Group) may benefit from cost-savings generated by operational synergies and economies of scale, such as strengthened bargaining power and resource-sharing.*
 - (d) **Increased revenue.** *The Group intends to explore opportunities involving cross-selling between the Target Group and the Group's customer databases. The enlarged Group may also be better-positioned to capitalise on any strategic opportunities which may arise in the future.*

4.4 *In light of the above-mentioned factors, the Board is of the view that the Proposed Acquisition is in the interests of the Group."*

4.2 Analysis of selected financial information of the Target Group

Set out below is a summary of the key proforma consolidated financial results of the Target Group, based on management accounts of the Target Group for the last three financial years ended 31 December ("FY"), that is, FY2011, FY2012, FY2013 and half year ended 30 June ("HY"), that is, HY2013 and HY2014 ("**Period Under Review**"):

(US\$'000)	FY2011	FY2012	FY2013	HY2013	HY2014
Sales	100,005	104,600	89,525	50,503	38,298
Gross profit	6,581	6,389	5,621	3,179	2,280
Expenses	(4,639)	(5,360)	(5,587)	(2,685)	(2,496)
Net profit	1,942	1,029	35	494	(216)

Source: Vendor

Operating Results

For the Period Under Review, revenue of the Target Group has softened, in particular, in FY2013 and HY2014. The markets for the Target Group's IT and photo imaging business were highly competitive, in particular, the tablets and digital cameras products, which are characterised by frequent product launches and rapid technological advances. The Target Group faced severe competition and seasonality of product life cycles which had affected its revenue for FY2013 and HY2014. Likewise, revenue of the Target Group was also dependent on the success of various new product launches by their key principals, which had contributed to better financial results in earlier years including FY2011.

Gross profit margin for the Period Under Review had been generally at or above 6% as a percentage of revenue.

Expenses continued to increase year-on-year due mainly to the opening of retail outlets for the Target Group's IT business in Vietnam for the last three financial years. For HY2014, expenses incurred had declined, representing less than 45% of the full expenses incurred in FY2013 as the Target Group scaled down its operations in certain less profitable business units.

Financial Position as at 30 June 2014

Pursuant to the SPA, the Company and the Vendor have agreed that the Dubai Property will not be transferred to the Target Group as part of the Restructuring of the GME Group. We understand from the Company that this is so because the Dubai Property is not being used for the business of the Target Group but instead the Dubai Property has been rented out by the Vendor to unrelated third parties for rental income.

Arising from the above, the management's proforma NAV of the Target Group after adjusting for, *inter alia*, the Dubai Property, as at 30 June 2014 was US\$0.62 million.

The breakdown of the adjusted proforma NAV of the Target Group as at 30 June 2014 is set out below:

(US\$'000)	As at 30 June 2014
Fixed assets	159
Investment	9
Total non-current assets	168

(US\$'000)	As at 30 June 2014
Inventories	6,505
Trade receivables	5,215
Other receivables, deposits and prepayments	1,399
Cash and cash equivalents	22,128
<i>Comprising:</i>	
- Fixed deposits	20,677
- Cash at bank	1,244
- Cash on hand	207
Total current assets	35,247
Net due to related parties	(32,245)
Trade payables	(567)
Other payables and accruals	(991)
Bills payable	(961)
Provision for taxation	(97)
Deferred taxation	60
Total liabilities	(34,801)
Net Assets	615*
<i>Source: Vendor</i>	

*Does not add up due to rounding.

The main assets of the Target Group are the fixed deposits (US\$20.68 million), inventories (US\$6.51 million) and trade receivables (US\$5.22 million), and the main liability of the Target Group is the amount due to related parties (US\$32.25 million).

We note that the amount due to related parties is, in effect, extension of Shareholders' Loans or inter-company loans from the Vendor to its subsidiaries to fund the business operations of the Target Group and were made in the ordinary course of business. As the Target Group entities are effectively wholly-owned subsidiaries of the Vendor, the Vendor could have utilised various funding structures to fund the operations of its subsidiaries, such as injection of equity capital and/or extension of Shareholders' Loans. Funding a subsidiary by the injection of equity capital would not result in any requirement for the subsidiary to repay its parent company. Had such funding be made via injection of equity capital instead of Shareholders' Loans, the NAV of the Target Group would have been higher.

We further understand that the fixed deposits in the Target Group are cash balances arising from the Shareholders' Loans being extended to the Target Group, and the Company and the Vendor have agreed to net off the fixed deposits against the Shareholders' Loans to arrive at the net Shareholders' Loans. Had the net Shareholders' Loans been capitalised into equity capital, the proforma NAV of the Target Group would have been US\$12.18 million instead of US\$0.62 million as at 30 June 2014.

In effect, the Proposed Acquisition will result in the Company acquiring the Target Group with net assets, represented mainly by inventories (US\$6.51 million as at 30 June 2014), trade receivables (US\$5.22 million as at 30 June 2014) and other net assets (US\$0.45 million as at 30 June 2014). We understand from the management of the Target Group that the inventories and trade receivables are assessed for impairment on a regular basis. As at 30 June 2014, any impairment on the book values of the inventories and trade receivables had been provided for adequately.

4.3 Evaluation of the amount payable for the Proposed Acquisition

Following from our description in paragraph 3.2 of this Letter, the amount payable by the Company to the Vendor for the Proposed Acquisition is as follows:

- (a) Consideration of approximately US\$3.00 million, which is a determined amount as it is based on the adjusted proforma NAV of the Target Group as at 30 June 2014 and the agreed Premium; and
- (b) Net Shareholders' Loans, which is to be determined at the Completion Date.

Premium above proforma NAV of the Target Group

As shown in the table in paragraph 3.2 of this Letter, based on the financial position of the Target Group as at 30 June 2014, the amount payable by the Company to the Vendor for the Proposed Acquisition would amount to US\$14.56 million.

This represents a price-to-NAV value ("**P/NAV**" or "**P/NTA**") of 1.2 times, as computed below:

US\$14.56 million / US\$12.18 million

= 1.2 times

Where:

- (aa) price is the amount payable by the Company for the Proposed Acquisition; and
- (bb) NAV value is the net assets of the Target Group as at 30 June 2014, recognising that Shareholders' Loans are in effect equivalent to share capital of the Target Group. As the Target Group has no intangible assets, NAV is equivalent to the NTA of the Target Group.

In our assessment of the amount payable for the Proposed Acquisition, we have attempted to consider evaluating the price-earnings ratio ("**PER**") implied by the amount payable for the Proposed Acquisition. However, in view of the financial results of the Target Group for FY2013 which was marginally profitable, and HY2014 which was a loss position, assessment based on the PER matrix is not meaningful.

In view of the above, we have made the assessment of the Proposed Acquisition based on the P/NTA approach.

The NTA based valuation provides an estimate of the value of a company assuming the hypothetical sale of all its tangible assets over a reasonable period of time and would be more relevant for asset-based companies or where the subject company intends to realise or convert the uses of all or most of its assets. Such a valuation approach would be particularly appropriate when applied in circumstances where the business is to cease operations. It is also appropriate in situations, like in this Proposed Acquisition, where the profitability of the business being valued is not sufficient to sustain an earnings-based valuation.

In relation to the Proposed Acquisition, the P/NTA ratio is 1.2 times. This implies that the Company is paying a goodwill of US\$2.38 million, representing a premium of 20% above the NTA value of the Target Group, notwithstanding that the Target Group had shown a downward trend in its financial performance for the Period Under Review.

We understand from the Company that the Premium was determined based on the following:

- (i) negotiation between the Company and the Vendor on a willing seller, willing buyer basis;
- (ii) the complementary business and distribution network that the Target Group has which will provide the Group with, *inter alia*, immediate access to additional markets, customer base, distributorships for brands like Apple and Tamron, as detailed fully in the rationale for the Proposed Acquisition in Section 4 of the Circular and paragraph 4.1 of this Letter;
- (iii) the Target Group has been in the business of distribution of consumer products of various brands since 1980s. The Target Group has been the distributor for the present key brands, namely, Apple and Tamron products for more than 6 years. The Company envisages that the cost to be incurred by the Group through organic growth to replicate the established business operations of the Target Group could be much higher than the Premium for the Proposed Acquisition and with the associated risk and uncertainty of success. In addition, in connection with the Proposed Acquisition, the existing management of the Target Group will continue with their employment with the Target Group to minimise disruptions to its existing operations and business relationships with the key principals for the distributorships. The employees of the Vendor and its subsidiaries who are engaged in the trading and distribution business who are not yet employed by the Target Group will be transferred to the Target Group; and
- (iv) the Vendor has assisted the Company to make the relevant notifications to the key principals and customers for the proposed change in the shareholding of the Target Group and, thus far, have not met with any objections from these key principals and customers on the proposed change in shareholding control of the Target Group.

Shareholders' Loans

As discussed in paragraph 4.2 above and in this paragraph 4.3, the net Shareholders' Loans cannot be determined at present, but is agreed to be determined at the Completion Date.

We understand from the Company and the Vendor that the Shareholders' Loans, in particular, could change from time to time depending on the working capital needs of the Target Group to fund its operations, for example, the purchase of inventories. Since the signing of the SPA, the Company and the Vendor have been liaising closely with each other to monitor the operations of the Target Group, including changes in the Shareholders' Loans and working capital needs.

As at 30 June 2014 and 30 September 2014, the details of the net Shareholders' Loans are as follows:

(US\$'000)	30 June 2014	30 September 2014
Shareholders' Loans	32,245	11,149
Less: Fixed deposits	(20,677)	NIL
Net Shareholders' Loans	11,568	11,149
Net assets of the Target Group (treating net Shareholders' Loans as share capital)	12,183	Not available

We note that as at 30 September 2014, the fixed deposits have been reduced to NIL balance. We understand from the Vendor that these fixed deposits, upon their maturity, have been utilised to repay part of the Shareholders' Loans.

To the extent that the increase/decrease in net Shareholders' Loans have been used to increase/decrease the overall net assets of the Target Group, as the case may be, the Company is not worse off as it is effectively paying for the value of the net assets of the Target Group at the Completion Date. We understand from the Company that the net assets of the Target Group had decreased in line with the decrease in net Shareholders' Loans of approximately US\$419,000 between 30 June 2014 and 30 September 2014. The decrease in the net assets of the Target Group is due mainly to the decrease in its working capital.

Peer Comparison

We have had discussions with the Management about the appropriateness of evaluating the Proposed Acquisition against peer companies listed in the SGX-ST which are comparable with the Target Group, that is, listed companies that are engaged in the trading and distribution of electronics related products. In view of the marginal profit achieved by the Target Group for FY2013 and the losses incurred in HY2014, comparison on a historical PER basis with the listed peer companies is not meaningful.

The Target Group's proforma NAV as at 30 June 2014 was only US\$0.62 million as the operations of the Target Group were funded primarily by Shareholders' Loans. After taking into consideration the adjusted proforma NAV of the Target Group of US\$12.18 million, where the Shareholders' Loans are treated as equivalent to equity, comparison of the Target Group with the listed peer companies would also not be appropriate as these peer companies selected are generally much larger than the Target Group in terms of market capitalisation, revenue and net asset value.

4.4 Financial effects of the Proposed Acquisition

Details on the financial effects of the Proposed Acquisition on the Group are set out in Section 5 of the Circular and are based on the audited consolidated financial statements of the Group for FY2013.

In summary, the Proposed Acquisition would result in the following financial effects for the Group:

- (a) the financial results of the enlarged Group will decrease slightly due mainly to the interest expenses arising from the borrowings incurred to partially fund the Proposed Acquisition;
- (b) the NTA of the enlarged Group will decrease due mainly to the Premium paid for the Proposed Acquisition as the Premium is regarded as goodwill or intangible asset which will be deducted in arriving at the NTA of the enlarged Group;
- (c) there is no impact on share capital as the Proposed Acquisition is intended to be funded by cash and/or bank borrowings; and
- (d) the net gearing ratio of the enlarged Group will increase as the Proposed Acquisition is intended to be funded substantially by borrowings.

4.5 Other relevant considerations

4.5.1 Statement from the Audit Committee

We note that the Audit Committee of the Company, comprising Mr Tan Lye Heng Paul, Mr Ravindran s/o Ramasamy and Mr Lee Teck Leng Robson, had in the announcement of the Proposed Acquisition on the Announcement Date, expressed its views that the Proposed

Acquisition is on normal commercial terms and is not prejudicial to the interests of the Company and its minority shareholders.

4.5.2 Irrevocable Undertaking from the controlling shareholder

Dr Derek Goh Bak Heng, the Executive Chairman and CEO of the Group, and the controlling shareholder of the Company, who holds 38.83% of the shareholdings in the Company, has provided an irrevocable undertaking to the Vendor to, *inter alia*, vote in favour of the Proposed Acquisition at the EGM.

4.5.3 Relevant notifications made to the key principals and customers for the change in shareholding of the Target Group

We understand from the Company that it has satisfied itself that the Vendor had made the relevant notifications to the key principals and customers of the Target Group on the proposed change in shareholding of the Target Group to ensure business continuity after the change in shareholding from the Vendor to the Company.

We also note that as part of the Restructuring, employees who are engaged in the trading and distribution business of the Vendor (other than those already employed by the Target Group) will be employed by the Target Group.

5. OUR OPINION

In arriving at our opinion in respect of the Proposed Acquisition, we have reviewed and examined all factors which we consider to be pertinent in our assessment, including the following key considerations:

- (a) rationale for the Proposed Acquisition;
- (b) analysis of the selected financial information of the Target Group;
- (c) evaluation of the amount payable for the Proposed Acquisition;
- (d) financial effects of the Proposed Acquisition; and
- (e) other relevant considerations.

Overall, having considered the above and the information available to us as at the Latest Practicable Date, we are of the opinion that the Proposed Acquisition as an Interested Person Transaction is on normal commercial terms and is not prejudicial to the interests of the Company and the Minority Shareholders.

Our opinion, as disclosed in this Letter, is based solely on publicly available information and information provided by the Directors and the Management and does not reflect any projections of future financial performance of the Company or the Group after the completion of the Proposed Acquisition. In addition, our opinion is based on the economic and market conditions prevailing as at the Latest Practicable Date and is solely confined to our views on the Proposed Acquisition.

This Letter is addressed to the Non-Interested Directors for their benefit and for the purpose of their consideration of the Proposed Acquisition. The recommendation to be made by the Non-Interested Directors to the Minority Shareholders shall remain the sole responsibility of the Non-Interested Directors. Whilst a copy of this Letter may be reproduced in the Circular, neither the Company, the Directors nor any other person may reproduce, disseminate or quote this Letter (or any part thereof) for any other purpose other than for the purpose of the EGM and for the purpose of the Proposed Acquisition, at any time and in any manner without the prior written consent of Provenance Capital in each specific case.

Our opinion is governed by, and construed in accordance with, the laws of Singapore, and is strictly limited to the matters stated herein and does not apply by implication to any other matter.

Yours faithfully
For and on behalf of
PROVENANCE CAPITAL PTE. LTD.

Wong Bee Eng
Chief Executive Officer



SERIAL SYSTEM LTD

(Company Registration Number: 199202071D)
(Incorporated in the Republic of Singapore on 22 April 1992)

NOTICE OF EXTRAORDINARY GENERAL MEETING

NOTICE IS HEREBY GIVEN that an Extraordinary General Meeting (“**EGM**”) of Serial System Ltd (“**Company**”) will be held at 8 Ubi View, #05-01, Serial System Building, Singapore 408554, on 30 December 2014 at 11.00 a.m., for the purpose of considering and, if thought fit, passing with or without any modifications, the following resolution which will be proposed as an Ordinary Resolution:

All capitalised terms in this Notice which are not defined herein shall have the same meanings ascribed to them in the Circular to shareholders of the Company dated 15 December 2014.

AS AN ORDINARY RESOLUTION

APPROVAL OF THE PROPOSED ACQUISITION OF THE ENTIRE TRADING AND DISTRIBUTION BUSINESS OF GSH CORPORATION LIMITED AS AN INTERESTED PERSON TRANSACTION (ON A POLL TAKEN)

THAT:

- (a) Pursuant to Chapter 9 of the Listing Manual of the Singapore Exchange Securities Trading Limited (“**Listing Manual**”), approval be and is hereby given for the acquisition by the Company of the entire trading and distribution business of GSH Corporation Limited (“**Vendor**”) which constitutes an interested person transaction under Chapter 9 of the Listing Manual, on the terms and conditions of the conditional sale and purchase agreement dated 9 July 2014 entered into between the Company and the Vendor; and
- (b) the Directors of the Company be and are hereby authorised to complete and/or do all such acts and things (including without limitation, to execute all such documents as may be required and to approve any amendments, alterations or modifications to any documents) as he/they may consider desirable, expedient or necessary to give effect to the transactions contemplated by this Ordinary Resolution.

By Order of the Board

Alex Wui Heck Koon
Company Secretary

Singapore
15 December 2014

NOTES:

1. A member of the Company entitled to attend and vote at the EGM is entitled to appoint no more than two (2) proxies to attend and vote on his behalf and such proxy need not be a member of the Company. Where a member appoints two (2) proxies, the appointments shall be invalid unless he specifies the proportion of his shareholding (expressed as a percentage of the whole) to be represented by each proxy.
2. A member of the Company which is a corporation is entitled to appoint its authorised representative or proxy by resolution of its directors or other governing body such person as it thinks fit to vote on its behalf. The common seal of such corporation must be affixed to the instrument appointing the proxy.
3. 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 48 hours before the time appointed for holding the EGM.

Personal data privacy:

By submitting a proxy form appointing a proxy(ies) and/or representative(s) to attend, speak and vote at the EGM and/or any adjournment thereof, a member of the Company (a) consents to the collection, use and disclosure of the member's personal data by the Company (or its agents or service providers) for the purpose of the processing, administration and analysis by the Company (or its agents or service providers) of proxies and representatives appointed for the EGM (including any adjournment thereof) and the preparation and compilation of the attendance lists, minutes and other documents relating to the EGM (including any adjournment thereof), and in order for the Company (or its agents or service providers) to comply with any applicable laws, listing rules, regulations and/or guidelines (collectively, the "**Purposes**"), (b) 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 or service providers), 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 or service providers) of the personal data of such proxy(ies) and/or representative(s) for the Purposes, and (c) 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.

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**SERIAL SYSTEM LTD**

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

**PROXY FORM
EXTRAORDINARY GENERAL MEETING****IMPORTANT:**

1. For investors who have used their Central Provident Fund ("CPF") monies to buy shares in Serial System Ltd, this Circular is forwarded to them at the request of their CPF Approved Nominees and is sent solely FOR INFORMATION ONLY.
2. This Proxy Form is not valid for use by CPF investors and shall be ineffective for all intents and purposes if used or purported to be used by them.
3. CPF investors who wish to attend the Extraordinary General Meeting as OBSERVERS must submit their requests through their CPF Approved Nominees within the time frame specified. If they also wish to vote, they must submit their voting instructions to the CPF Approved Nominees within the time frame specified to enable them to vote on their behalf.

I/We*, _____ (Name)

of _____ (Address)

being a Member/Members* of Serial System Ltd (the "Company") hereby appoint:

Name	NRIC/ Passport Number	Proportion of Shareholdings	
		No. of shares	%
Address			

and/or

Name	NRIC/ Passport Number	Proportion of Shareholdings	
		No. of shares	%
Address			

or failing him/her/them*, the Chairman of the Extraordinary General Meeting ("EGM") as my/our* proxy/proxies* to attend and to vote for me/us* on my/our* behalf and if necessary, to demand a poll, at the EGM of the Company to be held at 8 Ubi View, #05-01, Serial System Building, Singapore 408554, on 30 December 2014 at 11.00 a.m., and at any adjournment thereof. I/We* direct my/our* proxy/proxies* to vote for or against the Resolution proposed at the EGM as hereunder indicated. If no specific direction as to voting is given or in the event of any other matter arising at the EGM and at any adjournment thereof, the proxy/proxies* may vote or abstain from voting at his/her/their* discretion. The authority herein includes the right to demand or to join in demanding a poll and to vote on a poll.

	For	Against
1. Ordinary Resolution: To approve the acquisition by the Company of the entire trading and distribution business of GSH Corporation Limited as an interested person transaction (on a poll taken)		

Please indicate your vote "For" or "Against" with a tick [✓] within the box provided.

Dated this _____ day of _____ 2014

Total Number of Shares in:	No. of Shares
a. CDP Register	
b. Register of Members	

Signature(s) of Shareholder(s) / Common Seal of Corporate Shareholder

*Delete accordingly

IMPORTANT: PLEASE READ NOTES ON THE REVERSE PAGE BEFORE COMPLETING THIS FORM



Explanatory Notes for Proxy Form

1. Please insert the total number of Shares held by you. If you have Shares entered against your name in the Depository Register (as defined in Section 130A of the Companies Act, Chapter 50 of Singapore) you should insert that number of Shares. If you have Shares registered in your name in the Register of Members of the Company, you should insert that number of Shares. If you have Shares entered against your name in the Depository Register and Shares registered in your name in the Register of Members of the Company, you should insert the aggregate number of Shares entered against your name in the Depository Register and registered in your name in the Register of Members. If no number is inserted, the instrument appointing a proxy or proxies shall be deemed to relate to all the Shares held by you.
2. A member entitled to attend and vote at the EGM is entitled to appoint one (1) or two (2) proxies to attend and vote in his/her stead. A proxy need not be a member of the Company.
3. Where a member appoints two (2) proxies, the appointment shall be invalid unless he/she specifies the proportion (expressed as a percentage of the whole) of his/her shareholding to be represented by each proxy.
4. The instrument appointing a proxy or proxies must be deposited at the registered office of the Company at 8 Ubi View, #05-01, Serial System Building, Singapore 408554, not less than 48 hours before the time appointed for holding the EGM.
5. The instrument appointing a proxy or proxies must be under the hand of the appointor or of his attorney duly authorised in writing. Where an instrument appointing a proxy is signed on behalf of the appointor by an attorney, the letter or power of attorney or a duly certified copy thereof must (failing previous registration with the Company) be lodged with the instrument of proxy, failing which the instrument may be treated as invalid. Where the instrument appointing a proxy or proxies is executed by a corporation, it must be executed either under its common seal or under the hand of its attorney or any officer duly authorised.
6. A corporation which is a member may authorise by resolution of its directors or other governing body such person as it thinks fit to act as its representative at the EGM, in accordance with Section 179 of the Companies Act, Chapter 50 of Singapore.
7. The Company shall be entitled to reject the instrument appointing a proxy or proxies if it is incomplete, improperly completed or illegible or where the true intentions of the appointor are not ascertainable from the instructions of the appointor specified in the instrument appointing a proxy or proxies.
8. In addition, in the case of Shares entered in the Depository Register, the Company may reject any instrument appointing a proxy or proxies lodged if the member, being the appointor, is not shown to have Shares entered against his name in the Depository Register as at 48 hours before the time appointed for holding the EGM as certified by The Central Depository (Pte) Limited to the Company.

Personal data privacy:

By submitting a proxy form appointing a proxy(ies) and/or representative(s) to attend, speak and vote at the EGM and/or any adjournment thereof, a member of the Company (a) consents to the collection, use and disclosure of the member's personal data by the Company (or its agents or service providers) for the purpose of the processing, administration and analysis by the Company (or its agents or service providers) of proxies and representatives appointed for the EGM (including any adjournment thereof) and the preparation and compilation of the attendance lists, minutes and other documents relating to the EGM (including any adjournment thereof), and in order for the Company (or its agents or service providers) to comply with any applicable laws, listing rules, regulations and/or guidelines (collectively, the "**Purposes**"), (b) 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 or service providers), 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 or service providers) of the personal data of such proxy(ies) and/or representative(s) for the Purposes, and (c) 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.