



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

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

1. INTRODUCTION

- 1.1 The board of directors ("**Board**") of Serial System Ltd ("**Company**") is pleased to announce that the Company has on 9 July 2014 entered into a conditional sale and purchase agreement ("**SPA**") with GSH Corporation Limited ("**Vendor**"), a company incorporated in Singapore and listed on the Main Board of the Singapore Exchange Securities Trading Limited ("**SGX-ST**").
- 1.2 Pursuant to the SPA, the Company will acquire the entire trading and distribution business of the Vendor via the acquisition of:
- (a) the entire issued and paid-up share capital of Global Strategic Holdings Franchising Pte. Ltd ("**GSHF**"), a wholly-owned subsidiary of the Vendor;
 - (b) the entire issued and paid-up share capital of GSH Corporation (Far East) Pte. Ltd. ("**GFE**"), a wholly-owned subsidiary of the Vendor; and
 - (c) the entire issued and paid-up share capital of a new wholly-owned subsidiary of the Vendor to be incorporated in the British Virgin Islands ("**NewCo**"), which shall hold the GME Target Assets (as defined below),
- (collectively, the "**Proposed Acquisition**").

2. INFORMATION ON THE TARGET GROUP

The Vendor is the legal and beneficial owner of the entire issued and paid-up share capital of each of GSHF, GFE and GME (collectively, the "**Target Companies**"). The Target Companies are principally engaged in the business of trading and distributing fast-moving consumer goods, IT, photographic and timepiece products.

GSH (Middle East) Pte Ltd

GSH (Middle East) Pte Ltd ("**GME**") holds the entire issued and paid-up share capital of JEL Distribution (Kazakhstan) LLP ("**JDK**"), an entity incorporated in Kazakhstan (collectively with GME, the "**GME Group**").

In connection with the Restructuring (as defined below), all the assets and liabilities of GME and JDK (excluding a warehouse and office in Dubai) ("**GME Target Assets**") shall be transferred to NewCo.

GSH Corporation (Far East) Pte. Ltd.

GFE holds the entire issued and paid-up share capital of GSH Distribution (Cambodia) Pte Ltd, ("GDC") an entity incorporated in Cambodia, and JEL Trading Bangladesh Ltd ("JTB"), an entity incorporated in Bangladesh (GFE, GDC and JTB collectively, the "GFE Group").

Following the completion of the Proposed Acquisition ("Completion"), the Company shall acquire the **Target Group** (which shall comprise GSHF, GFE Group and NewCo).

3. RATIONALE FOR THE PROPOSED ACQUISITION

The Company and its subsidiaries ("Group") are principally engaged in the distribution of electronic and electrical components. The Group is also engaged in the distribution of medical devices, media and hospitality solutions (collectively, the "Group Businesses").

The Company is of the view that the business of the Target Group is complementary to the Group Businesses. The Company intends to leverage on the Group's extensive expertise and wide distribution networks, extensive product lines and customer base, as well as operational synergies and economies of scale, to expand and improve the business, operations and financial performance of the Target Group.

The Proposed Acquisition will provide the Group with opportunities to (i) expand on upstream product lines and ranges, and its customer base; and (ii) extend the Group Businesses to new markets in the Middle East, Cambodia, Bangladesh and Kazakhstan.

4. PRINCIPAL TERMS OF THE PROPOSED ACQUISITION

4.1 Consideration

The consideration to be paid by the Company to the Vendor ("**Consideration**") was arrived at on a willing buyer, willing seller basis, taking into account, *inter alia*, the adjusted net assets of the Target Group, information regarding the Target Group's business and operations, and the future prospects of the Target Group.

The Consideration shall be determined as follows:

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

where **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 (as defined below).

The NAV of the Target Group shall be verified by a final verification report to be issued by the Company's advisers, PricewaterhouseCoopers LLP ("**PWC Report**") no less than five (5) business days before Completion Date (as defined below), 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.

"**Completion Date**" shall mean the date on which completion of the Proposed Acquisition takes place ("**Completion**"), being the date falling ten (10) business days after the date of completion of the Restructuring (as defined below), or the date of fulfillment of the Condition Precedent (as defined below), whichever is the later, or such date as the Purchaser and the Vendor may mutually agree to in writing.

The Company shall update the shareholders of the Company as and when the Consideration is finalised.

The Consideration shall be payable by the Purchaser to the Vendor as follows:

- (a) US\$238,000 of the Consideration to be paid on the date of the SPA;
- (b) 50% less US\$238,000 of the Consideration to be paid on Completion Date;
- (c) 25% of the Consideration to be paid on the date falling one (1) calendar month from Completion Date; and
- (d) the remaining 25% of the Consideration to be paid on the date falling two (2) calendar months from Completion Date.

The Company intends to use its existing working capital and bank borrowings to fund the Proposed Acquisition.

4.2 Target Group Loans

Subject to Completion, the Company shall procure the repayment of all loans owed by the Target Group to the Vendor ("**Shareholder Loan(s)**"), as follows:

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

The aggregate amount of the Shareholder Loan(s) shall be based on the management accounts of the Target Group at Completion Date or such other date as the Parties may agree, taking into consideration, the PWC Report, where applicable.

4.3 Restructuring

The Vendor shall use reasonable endeavours to procure the following to be completed for the purpose of the Proposed Acquisition prior to Completion ("**Restructuring**"):

- (a) to cause the employment of 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 Vendor, to be employed by GFE (or such other company in the Target Group); and
- (b) to undertake the following in respect of NewCo:
 - (i) to incorporate NewCo in the British Virgin Islands;
 - (ii) to undertake the application for a branch office trading licence in the Jebel Ali Free Zone by NewCo; and
 - (iii) to undertake the capitalisation of NewCo via the transfer of all the GME Target Assets and procure the transfer of the companies in the GME Group, less GME, to NewCo.

4.4 Condition Precedent

The Proposed Acquisition is conditional upon the 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 of the SGX-ST ("**Listing Manual**")), and such approval not being withdrawn or revoked or becoming subject to any conditions on or before Completion Date ("**Condition Precedent**").

5. **FINANCIAL EFFECTS**

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

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

5.1 Net Tangible Assets

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

	Before the Proposed Acquisition	After the Proposed Acquisition
NTA (US\$'000)	100,896	98,516
Number of issued shares (excluding treasury shares) ('000)	895,842	895,842
NTA per share (US\$ cents)	11.26	11.00

5.2 Earnings per Share

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

	Before the Proposed Acquisition	After the Proposed Acquisition
Profit attributable to shareholders (US\$'000)	11,206	11,241
Number of issued shares (excluding treasury shares) ('000)	895,773	895,773
EPS (US\$ cents)	1.25	1.25

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

6.1 Relative Figures Pursuant to Rule 1006 of the Listing Manual

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

Bases of calculation		Size of relative figures (%)
(a)	The net asset value of the assets to be disposed of, compared with the Group's net asset value.	Not applicable as the Proposed Acquisition is not a disposal
(b)	The net profits ⁽¹⁾ attributable to the assets acquired or disposed of, compared with the Group's net profits.	-2.2
(c)	The aggregate value of the consideration given or received, compared with the Company's market capitalisation based on the total number of issued shares excluding treasury shares.	13.3 ⁽²⁾
(d)	The number of equity securities issued by the Company as consideration for an acquisition, compared with the number of equity securities previously in issue.	Not applicable
(e)	The aggregate volume or amount of proved and probable reserves to be disposed of, compared with the aggregate of the group's proved and probable reserves.	Not applicable

Note:

- (1) "Net profits" means profit or loss before income tax, minority interests and extraordinary items.
- (2) The market capitalisation of the Company is determined by multiplying the Company's total number of issued shares of 895,841,914 (excluding treasury shares) by S\$0.1409 (US\$0.1128), being the weighted average share price of the Company's shares on 8 July 2014, being the market day preceding the date of the SPA.

As the relative figure computed pursuant to Rule 1006(b) is a negative figure, the Company will be consulting the SGX-ST, in accordance with Rule 1007(1) of the Listing Manual, on whether shareholders' approval will be required for the Proposed Acquisition.

The Company will make such further announcements as shall be required upon the outcome of the consultation with the SGX-ST.

7. INTERESTED PERSON TRANSACTION

7.1 Chapter 9 of the Listing Manual

Mr. Goi Kok Neng Ben, Mr. Goi Seng Hui and the Vendor

Mr. Goi Kok Neng Ben is a non-executive director of the Company. He is an immediate family member of Mr. Goi Seng Hui, who, as at the date of this Announcement, has a direct interest in 4,592,769,976 shares of the Vendor (representing 46.46% of the total issued and paid-up capital of the Vendor).

Mr. Goi Seng Hui directly holds 30% or more of the shares in the Vendor. Accordingly, the Vendor is considered an associate of Mr. Goi Kok Neng Ben under the Listing Manual and is deemed to be an interested person vis-à-vis the Company.

Accordingly, the Proposed Acquisition constitutes an interested person transaction under Chapter 9 of the Listing Manual, and Mr. Goi Kok Neng Ben has abstained from expressing any views in the rationale for the Proposed Acquisition.

7.2 Total Value of Interested Person Transactions

For the financial year ending 31 December 2014, the current total of all transactions with the Vendor, whose transaction is the subject of this Announcement, as well as the current total of all interested person transactions of the Company, is approximately US\$4.2 million. This represents approximately 4.2% of the Group's latest audited net tangible assets of US\$100.9 million as at 31 December 2013.

7.3 Statement from the Audit Committee

The Audit Committee of the Company, comprising Mr. Tan Lye Heng Paul, Mr. Ravindran s/o Ramasamy and Mr. Lee Teck Leng Robson, having reviewed the terms and value of the Proposed Acquisition, is of the view that the Proposed Acquisition is on normal commercial terms and is not prejudicial to the interests of the Company and its minority shareholders.

8. SERVICE AGREEMENTS

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

9. INTERESTS OF DIRECTORS AND CONTROLLING SHAREHOLDERS

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

10. DOCUMENTS FOR INSPECTION

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

11. FURTHER ANNOUNCEMENTS AND CAUTION IN TRADING

Shareholders and potential investors are advised to exercise caution when dealing in the Company's shares, as there is no certainty or assurance, as at the date of this Announcement, as to whether the Proposed Acquisition will proceed to Completion.

Shareholders and potential advisers are advised to read this Announcement and any further announcements by the Company carefully. When in doubt, shareholders and potential investors are strongly advised to seek independent advice from their bankers, stockbrokers, solicitors or other professional advisers.

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

By Order of the Board

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

9 July 2014