



## SERIAL SYSTEM LTD

Company Registration No.: 199202071D  
(Incorporated in Singapore on 22 April 1992)

### Unaudited Second Quarter and Half Year Financial Statement and Dividend Announcement for the Period Ended 30 June 2019

#### PART I - INFORMATION REQUIRED FOR ANNOUNCEMENTS OF QUARTERLY (Q1, Q2 & Q3), HALF- YEAR AND FULL YEAR RESULTS

##### 1(a)(i) An income statement (for the group) together with a comparative statement for the corresponding period of the immediately preceding financial year.

	Note	The Group			Year-To-Date		
		2Q2019 US\$'000	2Q2018 US\$'000		30/06/2019 US\$'000	30/06/2018 US\$'000	
Sales		201,367	408,703	-51%	431,252	813,923	-47%
Cost of sales		(187,956)	(375,095)	-50%	(401,166)	(748,922)	-46%
<b>Gross profit</b>		<b>13,411</b>	33,608	-60%	<b>30,086</b>	65,001	-54%
<b>Gross profit margin</b>		<b>6.7%</b>	8.2%	-1.5 pt	<b>7.0%</b>	8.0%	-1.0 pt
Other income:							
Other operating income		9,435	(137)	NM	17,488	2,806	523%
Expenses:							
Distribution		(10,471)	(13,259)	-21%	(20,391)	(27,368)	-25%
Administrative		(2,440)	(4,460)	-45%	(4,884)	(9,042)	-46%
Finance		(2,324)	(3,329)	-30%	(5,419)	(6,409)	-15%
Other:							
Loss allowance on trade and other receivables		(212)	(453)	-53%	(469)	(1,231)	-62%
Other operating		(5,563)	(7,766)	-28%	(12,305)	(10,955)	12%
<b>Total expenses</b>		<b>(21,010)</b>	(29,267)	-28%	<b>(43,468)</b>	(55,005)	-21%
		1,836	4,204	-56%	4,106	12,802	-68%
Share of results of associated companies (after income tax)		365	(59)	NM	385	(288)	NM
Share of loss of joint venture (after income tax)		(165)	(15)	1,000%	(205)	(78)	163%
<b>Profit before income tax</b>	1	<b>2,036</b>	4,130	-51%	<b>4,286</b>	12,436	-66%
Income tax expense	2	(204)	(1,873)	-89%	67	(4,148)	NM
<b>Profit after income tax</b>		<b>1,832</b>	2,257	-19%	<b>4,353</b>	8,288	-47%
<b>Attributable to:</b>							
Equity holders of the Company		2,251	2,042	10%	5,429	7,232	-25%
Non-controlling interests		(419)	215	NM	(1,076)	1,056	NM
		1,832	2,257	-19%	4,353	8,288	-47%

Notes :

**1. Profit before income tax**

	The Group					
	Second Quarter			Year-To-Date		
	2Q2019	2Q2018	%	30/06/2019	30/06/2018	%
	US\$'000	US\$'000		US\$'000	US\$'000	
Profit from operations is arrived at after charging/(crediting):-						
a. Depreciation and amortisation	1,231	731	68	2,586	1,469	76
b. Amortisation of distribution rights	4	3	33	7	7	-
c. Gain on closure of a subsidiary	(14)	-	NM	(14)	-	NM
d. Loss on disposal of property, plant and equipment	-	1	NM	-	9	NM
e. Fair value (gain)/loss on financial assets, at fair value through profit or loss	(521)	1,166	NM	(1,012)	1,165	NM
f. Gain on sale of financial assets, at fair value through profit or loss	(598)	-	NM	(952)	(25)	3,708
g. Dividend income from financial assets, at fair value through profit or loss	(45)	(47)	-4	(45)	(47)	-4
h. Impairment losses on goodwill arising from acquisition of subsidiaries	540	600	-10	940	900	4
i. Impairment loss on investment in an associated company	-	1,500	NM	-	1,500	NM
j. Currency translation loss/(gain) (net)	754	1,972	-62	(241)	331	NM
k. Loss/(gain) on derivative financial instruments	104	(47)	NM	97	(272)	NM
l. Loss allowance on trade receivables	212	318	-33	469	716	-34
m. Loss allowance on other receivables	-	135	NM	-	515	NM
n. Allowance/(write-back) of allowance for inventory obsolescence	945	347	172	3,082	(884)	NM
o. Write-off of inventories	22	14	57	23	54	-57
p. Hong Kong IPO expenses	-	957	NM	-	2,019	NM
q. Consideration in relation to transfer of TI distribution business to an authorized distributor	(7,621)	-	NM	(12,683)	-	NM
r. Interest income	(570)	(477)	19	(1,168)	(989)	18
<b>2. Income tax expense</b>						
	2Q2019	2Q2018	%	30/06/2019	30/06/2018	%
	US\$'000	US\$'000		US\$'000	US\$'000	
Under/(over) provision in preceding financial years						
- Current income tax	60	15	300	(304)	215	NM
- Deferred income tax	21	-	NM	-	-	NM
	81	15	440	(304)	215	NM

NM – Not Meaningful

**1(a)(ii) A statement of comprehensive income for the Group together with a comparative statement for the corresponding period of the immediately preceding financial year**

	Second Quarter			The Group		
	2Q2019 US\$'000	2Q2018 US\$'000		30/06/2019 US\$'000	30/06/2018 US\$'000	
<b>Net profit after income tax</b>	<b>1,832</b>	2,257	-19%	<b>4,353</b>	8,288	-47%
<b>Other comprehensive (loss)/income for the period:</b>						
<b>Items that will not be reclassified subsequently to profit or loss:</b>						
Share of associated company's other comprehensive loss	(14)	-	NM	(14)	-	NM
	(14)	-	NM	(14)	-	NM
<b>Items that may be reclassified subsequently to profit or loss:</b>						
Share of associated companies' other comprehensive income/(loss)	31	(183)	NM	46	(286)	NM
Share of joint venture's other comprehensive (loss)/income	(5)	(156)	-97%	4	(44)	NM
Currency translation differences	(1,002)	(4,947)	-80%	334	(2,363)	NM
	(976)	(5,286)	-82%	384	(2,693)	NM
<b>Other comprehensive (loss)/income for the period</b>	<b>(990)</b>	(5,286)	-81%	<b>370</b>	(2,693)	NM
<b>Total comprehensive income/(loss) for the period</b>	<b>842</b>	(3,029)	NM	<b>4,723</b>	5,595	-16%
<b>Total comprehensive income/(loss) attributable to:</b>						
Equity holders of the Company	1,339	(3,049)	NM	5,600	4,394	27%
Non-controlling interests	(497)	20	NM	(877)	1,201	NM
	842	(3,029)	NM	4,723	5,595	-16%

NM – Not Meaningful

**1(b)(i) A statement of financial position (for the issuer and group), together with a comparative statement as at the end of the immediately preceding financial year.**

	The Group		The Company	
	30/06/2019 US\$'000	31/12/2018 US\$'000	30/06/2019 US\$'000	31/12/2018 US\$'000
<b>ASSETS</b>				
<b>Current assets</b>				
Cash and cash equivalents	46,924	59,180	7,693	8,057
Trade and other receivables	139,643	181,161	18,980	18,418
Inventories	113,068	144,995	-	-
Financial assets, at fair value through profit or loss	35,654	70,953	-	-
Other current assets	2,368	2,232	545	261
	<b>337,657</b>	<b>458,521</b>	<b>27,218</b>	<b>26,736</b>
<b>Non-current assets</b>				
Income tax recoverable	1,667	1,667	-	-
Loans and other receivables	-	-	38,491	34,970
Financial assets, at fair value through profit or loss	3,486	3,506	-	-
Financial assets, at fair value through other comprehensive income	594	1,995	-	-
Investments in associated companies	4,159	3,742	1,390	1,390
Investment in joint venture	1,614	1,815	-	-
Investments in subsidiaries	-	-	68,653	68,653
Property, plant and equipment	34,039	35,323	624	720
Investment properties	4,351	4,402	-	-
Right-of-use assets <sup>(1)</sup>	3,468	-	-	-
Intangible assets	8,266	9,062	139	58
Other assets	518	566	-	-
Deferred income tax assets	490	481	-	-
	<b>62,652</b>	<b>62,559</b>	<b>109,297</b>	<b>105,791</b>
<b>Total Assets</b>	<b>400,309</b>	<b>521,080</b>	<b>136,515</b>	<b>132,527</b>
<b>LIABILITIES</b>				
<b>Current liabilities</b>				
Trade and other payables	102,430	156,621	21,496	13,766
Current income tax liabilities	2,382	3,438	145	163
Borrowings <sup>(1)</sup>	135,698	211,443	54	6,496
	<b>240,510</b>	<b>371,502</b>	<b>21,695</b>	<b>20,425</b>
<b>Non-current liabilities</b>				
Other payables	-	-	11,544	12,028
Borrowings <sup>(1)</sup>	12,186	3,594	6,096	208
Defined benefit plans liabilities	962	863	-	-
Deferred income tax liabilities	662	660	288	288
	<b>13,810</b>	<b>5,117</b>	<b>17,928</b>	<b>12,524</b>
<b>Total Liabilities</b>	<b>254,320</b>	<b>376,619</b>	<b>39,623</b>	<b>32,949</b>
<b>Net Assets</b>	<b>145,989</b>	<b>144,461</b>	<b>96,892</b>	<b>99,578</b>

	The Group		The Company	
	30/06/2019 US\$'000	31/12/2018 US\$'000	30/06/2019 US\$'000	31/12/2018 US\$'000
<b>EQUITY</b>				
<b>Capital and reserves attributable to the equity holders of the Company</b>				
Share capital	72,648	72,648	72,648	72,648
Treasury shares	(736)	(736)	(736)	(736)
Capital reserve	1,276	1,276	180	180
Defined benefit plans reserve	(206)	(206)	-	-
Fair value reserve	(742)	(742)	-	-
Revaluation reserve	45	59	-	-
Other reserve	(765)	(765)	-	-
Currency translation reserve	4,979	4,794	-	-
Retained earnings <sup>(1)</sup>	62,634	60,401	24,800	27,486
	<b>139,133</b>	<b>136,729</b>	<b>96,892</b>	<b>99,578</b>
<b>Non-controlling interests</b>	<b>6,856</b>	<b>7,732</b>	<b>-</b>	<b>-</b>
<b>Total Equity</b>	<b>145,989</b>	<b>144,461</b>	<b>96,892</b>	<b>99,578</b>

<sup>(1)</sup> The effect on adoption of the SFRS(I) 16 has resulted in an increase in right-of-use assets of approximately US\$4,755,000, an increase in lease liabilities of US\$4,925,000 (included in current borrowings of US\$2,292,000 and non-current borrowings of US\$2,633,000), with a corresponding decrease in retained earnings of US\$170,000 as at 1 January 2019 (see Section 5 below). The right-of-use assets and lease liabilities were further reduced by US\$1,287,000 and US\$1,255,000 respectively in 1H2019.

#### 1(b)(ii) Aggregate amount of group's borrowings and debt securities.

##### Amount repayable in one year or less, or on demand

30/06/2019		31/12/2018	
<u>Secured</u>	<u>Unsecured</u>	<u>Secured</u>	<u>Unsecured</u>
US\$'000	US\$'000	US\$'000	US\$'000
5,568	130,130	8,811	202,632

##### Amount repayable after one year

30/06/2019		31/12/2018	
<u>Secured</u>	<u>Unsecured</u>	<u>Secured</u>	<u>Unsecured</u>
US\$'000	US\$'000	US\$'000	US\$'000
9,278	2,908	3,594	-

## Details of any collateral

- a) A term loan of the Company amounting to US\$5.9 million (31 December 2018: US\$6.4 million) which was re-financed to be payable on 31 May 2021, is secured on the following:
  - a first legal mortgage on the leasehold land and building ('Mortgaged Property') held by a wholly owned Singapore subsidiary, Serial Investment Pte Ltd;
  - an assignment of all rights and benefits relating to the Mortgaged Property;
  - an assignment of all rights, title interest and benefits in tenancy agreements, relating to the Mortgaged Property;
  - an assignment of all rights and benefits under the insurance policies taken in relation to the Mortgaged Property; and
  - joint and several guarantees of certain subsidiaries of the Group.
- b) Bank borrowing of US\$0.4 million (31 December 2018: US\$0.4 million) taken by a wholly owned Malaysia subsidiary, Serial Microelectronics Sdn. Bhd., to part finance the acquisition of a property in Malaysia is secured by a first legal mortgage of the property and guarantee by a subsidiary of the Group.
- c) Bank borrowing of US\$4.9 million (31 December 2018: US\$5.1 million) taken by a wholly owned Taiwan subsidiary, Serial Investment (Taiwan) Inc., to part finance the acquisition of a property in Taiwan and for working capital requirements is secured by a first legal mortgage of the property.
- d) Bank borrowings of US\$3.2 million taken up by a wholly owned South Korea subsidiary, Serial Microelectronics Korea Limited with two banks in 1H2019 for working capital requirements, are secured by a first legal mortgage of its property in South Korea.
- e) Finance lease liabilities of US\$0.40 million (31 December 2018: US\$0.40 million) are secured on the Group's assets acquired under finance lease agreements.

**1(c) A cash flow statement (for the group), together with a comparative statement for the corresponding period of the immediately preceding financial year.**

	Second Quarter		Year-To-Date	
	2Q2019	2Q2018	30/06/2019	30/06/2018
	US\$'000	US\$'000	US\$'000	US\$'000
<b>Cash flows from operating activities</b>				
Profit before income tax	2,036	4,130	4,286	12,436
Adjustments for:				
Amortisation of computer software license costs	38	66	77	136
Amortisation of distribution rights	4	3	7	7
Depreciation of property, plant and equipment	1,193	665	2,509	1,333
Loss on disposal of property, plant and equipment	-	1	-	9
Fair value (gain)/loss on financial assets, at fair value through profit or loss	(521)	1,166	(1,012)	1,165
Gain on sale of financial assets, at fair value through profit or loss	(598)	-	(952)	(25)
Dividend income from financial assets, at fair value through profit or loss	(45)	(47)	(45)	(47)
Impairment losses on goodwill arising from acquisition of subsidiaries	540	600	940	900
Gain on closure of a subsidiary	(14)	-	(14)	-
Impairment loss on investment in an associated company	-	1,500	-	1,500
Consideration in relation to transfer of TI distribution business to an authorized distributor	(7,621)	-	(12,683)	-
Provision for defined benefit plans liabilities	220	111	382	248
Interest income	(570)	(477)	(1,168)	(989)
Interest expense	2,324	3,329	5,419	6,409
Share of results of associated companies	(365)	59	(385)	288
Share of loss of joint venture	165	15	205	78
Operating cash flow before working capital changes	(3,214)	11,121	(2,434)	23,448
<b>Changes in working capital</b>				
Trade and other receivables	19,182	(19,595)	42,079	(42,753)
Financial assets, at fair value through profit or loss	8,074	-	35,299	-
Inventories	22,681	(11,051)	31,926	37,745
Other current assets	263	(910)	(135)	(1,442)
Other assets (non-current)	37	23	48	21
Trade and other payables	(25,964)	9,245	(40,497)	12,716
Cash from/(used in) operations	21,059	(11,167)	66,286	29,735
Income tax paid	(990)	(1,427)	(1,210)	(2,118)
<b>Net cash provided by/(used in) operating activities</b>	<b>20,069</b>	<b>(12,594)</b>	<b>65,076</b>	<b>27,617</b>
<b>Cash flows from investing activities</b>				
Payments for intangible assets (computer software license costs)	-	-	(132)	(22)
Payments for property, plant and equipment	(145)	(429)	(212)	(554)
Proceeds from disposal of property, plant and equipment	-	5	-	17
Proceeds from sale of financial assets, at fair value through profit or loss	1,633	-	2,847	355
Payments for financial assets, at fair value through profit or loss	(178)	(1,777)	(483)	(1,777)
Dividends received from financial assets, at fair value through profit or loss	45	47	45	47
Interest received	571	471	1,170	979
<b>Net cash provided by/(used in) investing activities</b>	<b>1,926</b>	<b>(1,683)</b>	<b>3,235</b>	<b>(955)</b>

	Second Quarter		Year-To-Date	
	2Q2019	2Q2018	30/06/2019	30/06/2018
	US\$'000	US\$'000	US\$'000	US\$'000
<b>Cash flows from financing activities</b>				
Subscription of interests in subsidiaries by non-controlling interests	-	-	1	40
Dividends paid	(3,026)	(3,115)	(3,026)	(3,115)
Dividend paid to non-controlling interest of a subsidiary	-	(265)	-	(265)
Proceeds from bank borrowings	151,721	238,004	344,511	469,842
Proceeds from lease liabilities	-	47	-	47
Repayment of bank borrowings	(179,279)	(244,260)	(415,095)	(491,322)
Repayment of finance lease liabilities	(24)	(10)	(51)	(18)
Repayment of lease liabilities	(653)	-	(1,260)	-
Bank balance transferred from an escrow account	10,000	-	-	-
Interest paid	(2,451)	(3,462)	(5,695)	(6,531)
<b>Net cash used in financing activities</b>	<b>(23,712)</b>	<b>(13,061)</b>	<b>(80,615)</b>	<b>(31,322)</b>
<b>Net decrease in cash and cash equivalents held</b>				
	<b>(1,717)</b>	<b>(27,338)</b>	<b>(12,304)</b>	<b>(4,660)</b>
Cash and cash equivalents at the beginning of the period	47,775	95,164	58,254	72,157
Effect of currency translation on cash and cash equivalents	(110)	(704)	(2)	(375)
<b>Cash and cash equivalents at the end of the period</b>	<b>45,948</b>	<b>67,122</b>	<b>45,948</b>	<b>67,122</b>
<b>Reconciliation:</b>				
<b>Cash and cash equivalents per statement of financial position</b>	<b>46,924</b>	<b>68,027</b>	<b>46,924</b>	<b>68,027</b>
Less : Bank deposits pledged for overdraft facility	(976)	(905)	(976)	(905)
<b>Cash and cash equivalents per consolidated cash flow statement</b>	<b>45,948</b>	<b>67,122</b>	<b>45,948</b>	<b>67,122</b>



**1(d)(i) A statement (for the issuer and group) showing either (i) all changes in equity or (ii) changes in equity other than those arising from capitalisation issues and distributions to shareholders, together with a comparative statement for the corresponding period of the immediately preceding financial year.**

**Consolidated Statement of Changes in Equity**

	← Attributable to equity holders of the Company →										Non-controlling interests US\$'000	Total equity US\$'000
	Share capital US\$'000	Treasury shares US\$'000	Capital reserve US\$'000	Defined benefit plans reserve US\$'000	Fair value reserve US\$'000	Revaluation reserve US\$'000	Other reserve US\$'000	Currency translation reserve US\$'000	Retained earnings US\$'000	Total attributable to equity holders of the Company US\$'000		
Balance at 1 January 2019	72,648	(736)	1,276	(206)	(742)	59	(765)	4,794	60,401	136,729	7,732	144,461
Effect of change in accounting policy on adoption of SFRS(I) 16	-	-	-	-	-	-	-	-	(170)	(170)	-	(170)
Balance at 1 January 2019 (restated)	72,648	(736)	1,276	(206)	(742)	59	(765)	4,794	60,231	136,559	7,732	144,291
Total comprehensive income for the period	-	-	-	-	-	-	-	1,083	3,178	4,261	(380)	3,881
Investment in a subsidiary by a non-controlling interest	-	-	-	-	-	-	-	-	-	-	1	1
Balance at 31 March 2019	72,648	(736)	1,276	(206)	(742)	59	(765)	5,877	63,409	140,820	7,353	148,173
Total comprehensive (loss)/income for the period	-	-	-	-	-	(14)	-	(898)	2,251	1,339	(497)	842
One-tier tax-exempt final cash dividend for year 2018	-	-	-	-	-	-	-	-	(3,026)	(3,026)	-	(3,026)
<b>Balance at 30 June 2019</b>	<b>72,648</b>	<b>(736)</b>	<b>1,276</b>	<b>(206)</b>	<b>(742)</b>	<b>45</b>	<b>(765)</b>	<b>4,979</b>	<b>62,634</b>	<b>139,133</b>	<b>6,856</b>	<b>145,989</b>

Consolidated Statement of Changes in Equity [cont'd]

	← Attributable to equity holders of the Company →									Non-controlling interests US\$'000	Total equity US\$'000
	Share capital US\$'000	Treasury shares US\$'000	Capital reserve US\$'000	Defined benefit plans reserve US\$'000	Revaluation reserve US\$'000	Other reserve US\$'000	Currency translation reserve US\$'000	Retained earnings US\$'000	Total attributable to equity holders of the Company US\$'000		
Balance at 1 January 2018	72,648	(736)	1,276	(149)	59	(765)	10,159	55,035	137,527	7,488	145,015
Total comprehensive income for the period	-	-	-	-	-	-	2,253	5,190	7,443	1,181	8,624
Investment in a subsidiary by a non-controlling interest	-	-	-	-	-	-	-	-	-	40	40
Balance at 31 March 2018	72,648	(736)	1,276	(149)	59	(765)	12,412	60,225	144,970	8,709	153,679
Total comprehensive (loss)/income for the period	-	-	-	-	-	-	(5,091)	2,042	(3,049)	20	(3,029)
One-tier tax-exempt final cash dividend for year 2017	-	-	-	-	-	-	-	(3,115)	(3,115)	-	(3,115)
Dividend paid to non-controlling interest of a subsidiary	-	-	-	-	-	-	-	-	-	(265)	(265)
Balance at 30 June 2018	72,648	(736)	1,276	(149)	59	(765)	7,321	59,152	138,806	8,464	147,270

Statement of Changes in Equity - Company

	Share capital US\$'000	Treasury shares US\$'000	Capital reserve US\$'000	Retained earnings US\$'000	Total equity US\$'000
Balance at 1 January 2019	72,648	(736)	180	27,486	99,578
Total comprehensive income for the period	-	-	-	31	31
Balance at 31 March 2019	72,648	(736)	180	27,517	99,609
Total comprehensive income for the period	-	-	-	309	309
One-tier tax-exempt final cash dividend for year 2018	-	-	-	(3,026)	(3,026)
<b>Balance at 30 June 2019</b>	<b>72,648</b>	<b>(736)</b>	<b>180</b>	<b>24,800</b>	<b>96,892</b>
Balance at 1 January 2018	72,648	(736)	180	35,284	107,376
Total comprehensive loss for the period	-	-	-	(518)	(518)
Balance at 31 March 2018	72,648	(736)	180	34,766	106,858
Total comprehensive income for the period	-	-	-	3,204	3,204
One-tier tax-exempt final cash dividend for year 2017	-	-	-	(3,115)	(3,115)
Balance at 30 June 2018	72,648	(736)	180	34,855	106,947

**1(d)(ii) Details of any changes in the company's share capital arising from rights issue, bonus issue, share buy-backs, exercise of share options or warrants, conversion of other issues of equity securities, issue of shares for cash or as consideration for acquisition or for any other purpose since the end of the previous period reported on. State the number of shares that may be issued on conversion of all the outstanding convertibles as at the end of the current financial period reported on and as at the end of the corresponding period of the immediately preceding financial year.**

There were no ordinary shares issued since the end of the financial period ended 31 March 2019.

There were no purchase, sale, transfer, disposal, cancellation and use of treasury shares since the end of the financial year ended 31 December 2018.

There were no outstanding share options as at 30 June 2019 (30 June 2018: Nil).

**1(d)(iii) To show the total number of issued shares excluding treasury shares as at the end of the current financial period and as the end of the immediately preceding year.**

	<u>30/06/2019</u>	<u>31/12/2018</u>
Total number of issued shares	905,787,914	905,787,914
Total number of treasury shares	(9,946,000)	(9,946,000)
Total number of issued shares excluding treasury shares	<u>895,841,914</u>	<u>895,841,914</u>

**1(d)(iv) A statement showing all sales, transfers, disposal, cancellation and/or use of treasury shares as at the end of the current financial period reported on.**

Please refer to 1(d)(ii).

**1(d)(v) A statement showing all sales, transfers, cancellation and/or use of subsidiary holdings as at the end of the current financial period reported on.**

Not applicable.

**1(e) Negative assurance confirmation on interim financial results pursuant to Rule 705(5) of the Listing Manual**

The Board of Directors of the Company confirms to the best of their knowledge that nothing has come to their attention which may render the unaudited Second Quarter and Half Year Financial Statements for the period ended 30 June 2019 to be false or misleading.

**2. Whether the figures have been audited or reviewed and in accordance with which auditing standard or practice.**

The financial statements have not been audited nor reviewed by the Company's auditors.

**3. Where the figures have been audited or reviewed, the auditors' report (including any qualifications or emphasis of a matter).**

Not applicable.

**4. Whether the same accounting policies and methods of computation as in the issuer's most recently audited annual financial statements have been applied.**

The Group has applied the same accounting policies and methods of computation in the financial statements for the current reporting period compared with the audited annual financial statements for the financial year ended 31 December 2018 except as described in section 5 below.

**5. If there are any changes in the accounting policies and methods of computation, including any required by an accounting standard, what has changed, as well as the reasons for, and the effect of, the change.**

The Group has adopted the following changes in accounting standards for the current reporting financial year:

**SFRS(I) 16 Leases**

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

The Group has adopted SFRS(I) 16 on 1 January 2019 based on a permitted transition approach that does not restate comparative information, but recognises the cumulative effect of initially applying SFRS(I) 16 as an adjustment to the opening balance of retained earnings on 1 January 2019. The Group has also adopted an expedient offered by SFRS(I) 16, exempting the Group from having to reassess whether pre-existing contracts contain a lease.

- The Group has entered into various operating lease arrangements as at 31 December 2018. The effect on adoption of the SFRS(I) 16 has resulted in an increase in right-of-use assets of approximately US\$4,755,000, an increase in lease liabilities of US\$4,925,000 (included in borrowings), with a corresponding decrease in retained earnings of US\$170,000 as at 1 January 2019. The nature of expenses related to those leases had also changed as SFRS(I) 16 replaced the straight-line operating lease expense with a depreciation charge for right-of-use assets and interest expenses on lease liabilities.

6. Earnings per ordinary share of the group for the current financial period reported on and the corresponding period of the immediately preceding financial year, after deducting any provision for preference dividends.

	The Group			
	Second Quarter		Year-To-Date	
	2Q2019	2Q2018	30/06/2019	30/06/2018
Based on the weighted average number of ordinary shares in issue (in US\$); and	<b>0.25 cent</b>	0.23 cent	<b>0.61 cent</b>	0.81 cent
On a fully diluted basis (in US\$)	<b>0.25 cent</b>	0.23 cent	<b>0.61 cent</b>	0.81 cent

Earnings per ordinary share on existing issued share capital are computed based on the weighted average number of shares in issue during the period of 895,841,914 (2Q2018/1H2018: 895,841,914).

Earnings per ordinary share on a fully diluted basis is computed based on the weighted average number of shares in issue during the period of 895,841,914 (2Q2018/1H2018: 895,841,914) after adjusting assumed conversion of all potential dilutive ordinary shares.

There were no potential dilutive ordinary shares for the financial period ended 30 June 2019 and 30 June 2018.

7. Net asset value (for the issuer and group) per ordinary share based on issued share capital of the issuer at the end of the:-  
 (a) current financial period reported on; and  
 (b) immediately preceding financial year.

	The Group		The Company	
	30/06/2019	31/12/2018	30/06/2019	31/12/2018
Net assets backing per ordinary share based on the existing issued share capital as at the end of the period reported on (in US\$)	<b>15.53 cents</b>	15.26 cents	<b>10.82 cents</b>	11.11 cents

8. **A review of the performance of the group, to the extent necessary for a reasonable understanding of the group's business. It must include a discussion of the following:-**
- (a) any significant factors that affected the turnover, costs, and earnings of the group for the current financial period reported on, including (where applicable) seasonal or cyclical factors; and**
  - (b) any material factors that affected the cash flow, working capital, assets or liabilities of the group during the current financial period reported on.**

### **Income Statement**

#### **Results for Six Months Ended 30 June 2019**

The Group recorded a turnover of US\$431.3 million for the half year ended 30 June 2019 ("1H2019"), a decrease of 47% compared to US\$813.9 million for the same period last year ("1H2018").

Turnover for the electronic components distribution business declined by 47% to US\$411.7 million. The decline is due mainly to the termination of the distribution business with Texas Instruments ("TI") which has impacted sales in all markets in Asia. Taking out the impact of the decline in turnover due to TI termination and the discontinuation of a product line in March 2018, turnover for the electronic components distribution business would have increased by 8% amid the trade tensions between China and the United States. This was due to the Group's conscientious efforts to grow some of its existing product lines post-TI termination which have contributed to an increase in sales for these product lines in 1H2019.

Turnover for the consumer products distribution business declined 43% to US\$17.3 million, mainly due to the weak demand in the markets (Singapore and Malaysia) in which the Group operates and the Group's continued rationalisation and exit of non-profitable products.

Overall gross profit margin decreased to 7.0% from 8.0% in 1H2018, due to lower margin achieved by both the electronic components distribution and consumer products distribution businesses as a result of keen market competition in a challenging environment.

The Group reported a net profit after tax of US\$5.4 million, a decrease of 25% as compared to US\$7.2 million in 1H2018. The lower profit achieved which included the recognition of a consideration of US\$12.7 million in relation to the transfer of the distribution business with TI to an authorized distributor in 1H2019 was mainly due to lower gross profit earned from both lower sales and lower gross margin which was offset by a smaller decrease in total operating expenses. The Group posted a net margin of 1.3%, compared to 0.9% in the previous period.

#### **Results for 2Q2019**

The Group recorded a turnover of US\$201.4 million for the second quarter ended 30 June 2019 ("2Q2019"), a decrease of 51% compared to US\$408.7 million for the same period last year ("2Q2018").

Turnover for the electronic components distribution business declined 51% to US\$191.8 million, mainly due to TI termination. Taking out the impact of the decline in turnover due to TI termination and the discontinuation of a product line in March 2018, turnover for the electronic components distribution business would have increased by 9% despite a challenging environment, especially the on-going trade tensions between China and the United States which have affected demand in China and Hong Kong. This was due to increased sales for certain existing product lines as the Group focused its resources to grow these product lines following TI termination.

Turnover for the consumer products distribution business declined by 35% to US\$8.5 million, mainly due to the weak demand in the markets (Singapore and Malaysia) in which the Group operates and the Group's continued rationalisation and exit of non-profitable products.

Overall gross profit margin decreased to 6.7% from 8.2% in 2Q2018, due to lower margin achieved by both the electronic components distribution and consumer products distribution businesses as a result of keen market competition in a challenging environment.

Other operating income increased by US\$9.6 million, mainly due to the recognition in 2Q2019 of a consideration of US\$7.6 million in relation to the transfer of the distribution business with TI to an authorized distributor, a gain on sale of financial assets, at fair value through profit or loss of US\$0.6 million, and a fair value gain on financial assets, at fair value through profit or loss of US\$0.5 million in 2Q2019. A lower currency translation loss of US\$1.2 million also contributed to the increase in other operating income when compared to 2Q2018.

Distribution expenses decreased by US\$2.8 million or 21%, mainly due to lower staff and related costs, freight and handling charges, storage charges, custom and business taxes associated with the electronic components distribution business as a result of the reduction of sales in 2Q2019.

Administrative expenses decreased by US\$2.0 million or 45%. The decrease was mainly due to the absence of legal and professional fees in relation to SMHK's Hong Kong IPO which amounted to US\$1.0 million in 2Q2018, and lower bank charges and staff-related costs associated with the electronic components distribution business.

Finance expenses decreased by US\$1.0 million or 30%. The decrease was mainly due to lower bank borrowings, in line with the decreased in sales. The higher interest rates across all trade facilities compared with 2Q2018 partially offset the decline in finance expenses.

Other operating expenses decreased by US\$2.2 million or 28%. The decrease was mainly due to the absence of an impairment loss on investment in an associated company and a fair value loss on financial assets, at fair value through profit or loss which amounted to US\$1.5 million and US\$1.2 million respectively in 2Q2018, and lower staff costs. Higher allowance for inventory obsolescence partially offset the decrease in other operating expenses.

The Group's share of net profit from associated companies of US\$0.4 million was mainly contributed by 19.02%-owned Bull Will Co., Ltd. Bull Will Co., Ltd posted a profit in 2Q2019 mainly due to the partial recovery of insurance claim on certain customers' trade receivables impaired in 2016.

The Group shared a higher net loss of US\$0.2 million in 27.5%-owned Musang Durians Frozen Food (M) Sdn. Bhd. as a result of low sales which was not able to cover its operating expenses.

The Group reported a net profit after tax of US\$2.3 million compared to US\$2.0 million in 2Q2018. The Group posted a net margin of 1.1% in 2Q2019, compared to 0.5% in the previous period.

### **Statement of Financial Position**

Trade and other receivables decreased by US\$41.5 million (net of factored trade receivables), mainly due to lower sales achieved by the Group's electronic components distribution and consumer products distribution subsidiaries in 1H2019. The decrease is partially offset by longer payment terms from certain customers of the Group's electronic components distribution subsidiaries in 1H2019. Average turnover days for trade receivables increased to 84 in 1H2019 from 54 in FY2018.

Inventories decreased by US\$31.9 million, mainly due to lower inventories held by the Group's electronic components distribution subsidiaries. The Group's consumer products distribution subsidiaries also held lower inventories overall in 1H2019 in anticipation of lower sales in the markets they operate.

Financial assets, at fair value through profit or loss (current assets) decreased by US\$35.3 million, mainly due to the reduction in reclassification from trade receivables by US\$35.3 million to US\$34.9 million (FY2018: reclassification from trade receivables of US\$70.2 million). This was due to lower sales achieved by the Group's electronic components distribution subsidiaries in 1H2019.

The Company's loans and other receivables increased by US\$3.5 million mainly due to additional inter-company loans to the Group's Hong Kong electronic components distribution subsidiary and the Group's Thailand subsidiary in 1H2019.

Trade and other payables decreased by US\$54.2 million, mainly due to lower purchases by the Group's electronic components distribution subsidiaries. The partial recognition of contingent consideration received from the authorized distributor for the transfer of TI business to other income in 1H2019 also contributed to the decrease in trade and other payables. Average payment days for trade payables increased to 34 in 1H2019 from 29 in FY2018.

The Company's trade and other payables increased by US\$7.7 million mainly due to additional loans from its wholly owned Singapore subsidiary in 1H2019.

Borrowings decreased by US\$67.2 million, mainly due to lower bank borrowings by the Group's electronic components distribution subsidiaries as the Group utilised funds generated from operations and the consideration received in relation to transfer of TI distribution business to an authorized distributor, to reduce its borrowings and to finance its working capital requirements. The Company's current portion of a term loan amounting to US\$5.9 million which was re-financed to be payable on 31 May 2021, was reclassified to non-current borrowings as at 30 June 2019.

**9. Where a forecast, or a prospect statement, has been previously disclosed to shareholders, any variance between it and the actual results.**

No forecast or prospect statement was previously issued in respect of the current reporting period.

**10. A commentary at the date of the announcement of the significant trends and competitive conditions of the industry in which the group operates and any known factors or events that may affect the group in the next reporting period and the next 12 months.**

The Group continues to monitor the ongoing trade tensions between China and the United States, and its effects on the Asian markets which the Group operates. To alleviate any impact it may have on business, the Group has been exploring opportunities to diversify its income streams to reduce risk and protect itself from any unforeseen developments.

Following the TI termination, the Group presses on with its two-prong strategy for its electronic components distribution business, which consists of reallocating resources and personnel to more efficiently support its existing suppliers, and proactively and aggressively unlocking potential partnerships with other suppliers, customers and channel partners. The Group would also continue to review its operations and rightsize its workforce in view of the lower turnover for the electronic components distribution business as this core business goes through this transition.

Barring unforeseen circumstances, the Group expects to remain profitable for the financial year ending 31 December 2019.

**11. Dividend**

**a) Current Financial Period Reported On**

Any dividend declared (recommended) for the current financial period reported on? Yes

Name of Dividend	Interim
Dividend Type	Cash
Dividend Amount per Share (in SGD) cents)	0.22 cent per ordinary share
Optional:- Dividend Rate (in %)	
Par value of shares	Not applicable
Tax Rate	One-Tier Tax-exempt



## b) Corresponding Period of the Immediately Preceding Financial Year

Any dividend declared for the corresponding period of the immediately preceding financial year? Yes

Name of Dividend	Interim
Dividend Type	Cash
Dividend Amount per Share (in SGD) cents	0.40 cent per ordinary share
Optional:- Dividend Rate (in %)	
Par value of shares	Not applicable
Tax Rate	One-Tier Tax-exempt

## c) Date payable

Date of proposed interim dividend payment will be announced at a later date.

## d) Books closure date

Notice of books closure date will be announced at a later date.

12. **If no dividend has been declared/recommended, a statement to that effect and the reason(s) for the decision.**

Not applicable.

13. **If the group has obtained a general mandate from shareholders for IPTs, the aggregate value of such transactions as required under SGX Listing Manual Rule 920(1)(a)(ii). If no IPT mandate has been obtained, a statement to that effect.**

No general mandate from shareholders has been obtained for IPTs.

14. **Confirmation that the issuer has procured undertakings from all its directors and executive officers (in the format set out in Appendix 7.7) under Rule 720(1).**

The Company confirms that it has procured undertakings from all its directors and executive officers in the format set out in Appendix 7.7 under Rule 720(1) of the Listing Manual.

BY ORDER OF THE BOARD

Dr Derek Goh Bak Heng  
Executive Chairman/Group CEO  
7 August 2019