



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 2017

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	Second Quarter			The Group		
		2Q2017 US\$'000	2Q2016 US\$'000		Year-To-Date 30/06/2017 US\$'000	30/06/2016 US\$'000	
Sales		373,927	378,572	-1%	706,864	711,368	-1%
Cost of sales		(347,783)	(353,697)	-2%	(656,761)	(664,136)	-1%
Gross profit		26,144	24,875	5%	50,103	47,232	6%
Gross profit margin		7.0%	6.6%	0.4 pt	7.1%	6.6%	0.5 pt
Other income:							
Other operating income		1,374	3,706	-63%	3,115	6,651	-53%
Expenses:							
Distribution		(12,099)	(12,688)	-5%	(23,588)	(25,283)	-7%
Administrative		(3,098)	(3,221)	-4%	(6,254)	(6,413)	-2%
Finance		(2,501)	(2,147)	16%	(4,688)	(4,356)	8%
Other		(4,352)	(4,701)	-7%	(9,024)	(14,197)	-36%
Total expenses		(22,050)	(22,757)	-3%	(43,554)	(50,249)	-13%
		5,468	5,824	-6%	9,664	3,634	166%
Share of results of associated companies (after income tax)		(328)	(408)	20%	(630)	(3,657)	83%
Profit/(loss) before income tax	1	5,140	5,416	-5%	9,034	(23)	39,378%
Income tax expense	2	(1,423)	(1,924)	-26%	(2,303)	(2,879)	-20%
Profit/(loss) after income tax		3,717	3,492	6%	6,731	(2,902)	332%
Attributable to:							
Equity holders of the Company		3,370	3,280	3%	6,078	(3,279)	285%
Non-controlling interests		347	212	64%	653	377	73%
		3,717	3,492	6%	6,731	(2,902)	332%

Notes :

1. Profit/(loss) before income tax

	Second Quarter			The Group		
	2Q2017	2Q2016	%	Year-To-Date		%
	US\$'000	US\$'000		30/06/2017	30/06/2016	
	US\$'000	US\$'000		US\$'000	US\$'000	
Profit/(loss) from operations is arrived at after charging/(crediting) :-						
a. Depreciation and amortisation	674	767	-12	1,347	1,938	-30
b. Amortisation of distribution rights	4	(1)	-500	7	-	NM
c. Impairment losses on goodwill arising from acquisition of subsidiaries	220	425	-48	450	650	-31
d. Negative goodwill arising from acquisition of subsidiaries	-	-	NM	-	(345)	NM
e. Loss on remeasuring previously held equity in an associated company	-	-	NM	-	449	NM
f. Gain (net) on closure of subsidiaries	(64)	-	NM	(41)	-	NM
g. (Gain)/loss on disposal of property, plant and equipment	(1)	-	NM	7	11	-36
h. Property, plant and equipment written off	5	-	NM	5	-	NM
i. Gain on sale of financial assets, available-for-sale	-	(1,421)	NM	-	(1,567)	NM
j. Fair value loss on financial assets, at fair value through profit or loss	24	40	-40	16	36	-56
k. Allowance for impairment losses on trade receivables	93	75	24	166	270	-39
l. Allowance for inventory obsolescence	330	344	-4	807	2,222	-64
m. Write-off of inventories	79	93	-15	61	109	-44
n. Currency translation loss/(gain) (net)	140	(265)	-153	727	2,003	-64
o. Currency translation reserve realised to income statement upon repayment of inter-company long term loans	185	200	-8	228	1,092	-79
p. (Gain)/loss on derivative financial instruments	(10)	404	102	(169)	215	179
q. Dividend income received from financial assets, available-for-sale	(94)	(153)	-39	(94)	(153)	-39
r. Interest income	(369)	(270)	37	(706)	(487)	45
2. Income tax expense						
Under/(over) provision in preceding financial years	2Q2017	2Q2016		30/06/2017	30/06/2016	
	US\$'000	US\$'000	%	US\$'000	US\$'000	%
- Current income tax	3	804	-100	(247)	804	131
	3	804	-100	(247)	804	131

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	Year-To-Date		
	2Q2017	2Q2016		30/06/2017	30/06/2016	
	US\$'000	US\$'000		US\$'000	US\$'000	
Net profit/(loss) after income tax	3,717	3,492	6%	6,731	(2,902)	332%
Other comprehensive income for the period:						
Items that will not be reclassified subsequently to profit or loss:						
Share of associated company's other comprehensive income	-	17	NM	-	36	NM
	-	17	NM	-	36	NM
Items that may be reclassified subsequently to profit or loss:						
Net (loss)/gain on fair value changes on financial assets, available-for-sale	(1,720)	432	-498%	(354)	7,338	-105%
Fair value gain on financial assets, available-for-sale reclassified to profit or loss	-	(1,157)	NM	-	(1,303)	NM
Share of associated company's other comprehensive income	(15)	7	-314%	29	11	164%
Currency translation differences	2,017	(2,210)	191%	5,238	1,623	223%
	282	(2,928)	110%	4,913	7,669	-36%
Other comprehensive income/(loss) for the period	282	(2,911)	110%	4,913	7,705	-36%
Total comprehensive income for the period	3,999	581	588%	11,644	4,803	142%
Total comprehensive income attributable to:						
Equity holders of the Company	3,560	563	532%	11,081	4,757	133%
Non-controlling interests	439	18	2339%	563	46	1,124%
	3,999	581	588%	11,644	4,803	142%

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	
	30/06/2017 US\$'000	31/12/2016 US\$'000	30/06/2017 US\$'000	31/12/2016 US\$'000
ASSETS				
Current assets				
Cash and cash equivalents	56,119	65,153	862	859
Trade and other receivables	228,511	207,750	14,382	12,393
Inventories	147,789	152,901	-	-
Financial assets, at fair value through profit or loss	796	812	-	-
Other current assets	3,324	3,944	509	245
	436,539	430,560	15,753	13,497
Non-current assets				
Loans and receivables	820	820	45,838	45,241
Financial assets, available-for-sale	7,176	7,517	-	-
Investments in associated companies	18,308	16,738	4,872	4,872
Investments in subsidiaries	-	-	67,547	65,547
Property, plant and equipment	35,554	35,200	304	305
Investment properties	5,530	5,267	-	-
Intangible assets	14,048	14,721	347	465
Other assets	1,093	1,068	-	-
Deferred income tax assets	757	711	-	-
	83,286	82,042	118,908	116,430
Total Assets	519,825	512,602	134,661	129,927
LIABILITIES				
Current liabilities				
Trade and other payables	164,195	178,507	13,370	9,128
Current income tax liabilities	4,216	4,070	487	405
Borrowings	202,329	189,393	2,321	2,216
	370,740	371,970	16,178	11,749
Non-current liabilities				
Other payable	-	-	6,476	6,078
Borrowings	12,659	15,032	7,544	8,310
Defined benefit plans liabilities	810	542	-	-
Deferred income tax liabilities	275	271	-	-
	13,744	15,845	14,020	14,388
Total Liabilities	384,484	387,815	30,198	26,137
Net Assets	135,341	124,787	104,463	103,790

	The Group		The Company	
	30/06/2017 US\$'000	31/12/2016 US\$'000	30/06/2017 US\$'000	31/12/2016 US\$'000
EQUITY				
Capital and reserves attributable to the Company's equity holders				
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	(257)	(257)	-	-
Fair value reserve	3,316	3,670	-	-
Revaluation reserve	59	59	-	-
Other reserve	(771)	(771)	-	-
Currency translation reserve	2,674	(2,683)	17,589	17,589
Retained earnings	51,706	46,719	14,782	14,109
	129,915	119,925	104,463	103,790
Non-controlling interests	5,426	4,862	-	-
Total Equity	135,341	124,787	104,463	103,790

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

Amount repayable in one year or less, or on demand

30/6/2017		31/12/2016	
<u>Secured</u>	<u>Unsecured</u>	<u>Secured</u>	<u>Unsecured</u>
US\$'000	US\$'000	US\$'000	US\$'000
5,343	196,986	5,065	184,328

Amount repayable after one year

30/6/2017		31/12/2016	
<u>Secured</u>	<u>Unsecured</u>	<u>Secured</u>	<u>Unsecured</u>
US\$'000	US\$'000	US\$'000	US\$'000
11,332	1,327	12,378	2,654

Details of any collateral

- a) A US\$14.5 million (S\$20 million) four-year term loan with an outstanding balance amounting to US\$9.9 million (31 December 2016: US\$10.5 million) taken up by the Company with a bank is secured with 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\$0.5 million (31 December 2016: US\$0.5 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\$5.6 million (31 December 2016: US\$5.4 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 borrowing of US\$0.7 million (31 December 2016: US\$1.0 million) taken by a wholly owned South Korea subsidiary, Serial Microelectronics Korea Limited, to part finance the acquisition of a property in South Korea is secured by a first legal mortgage of the property.
- e) Finance lease liabilities of US\$0.04 million (31 December 2016: US\$0.04 million) are secured on the Group’s motor vehicles 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	
	2Q2017	2Q2016	30/06/2017	30/06/2016
	US\$'000	US\$'000	US\$'000	US\$'000
Cash flows from operating activities				
Profit/(Loss) before income tax	5,140	5,416	9,034	(23)
Adjustments for:				
Amortisation of computer software license costs	84	80	166	154
Amortisation of distribution rights	4	(1)	7	-
Depreciation of property, plant and equipment	590	687	1,181	1,784
Property, plant and equipment written off	5	-	5	-
(Gain)/loss on disposal of property, plant and equipment	(1)	-	7	11
Impairment losses on goodwill arising from acquisition of subsidiaries	220	425	450	650
Negative goodwill arising from acquisition of subsidiaries	-	-	-	(345)
Loss on remeasuring previously held equity in an associated company	-	-	-	449
Gain (net) on closure of subsidiaries	(64)	-	(41)	-
Gain on sale of financial assets, available for sale	-	(1,421)	-	(1,567)
Fair value loss on financial assets, at fair value through profit or loss	24	40	16	36
Provision for defined benefit plans liabilities	133	165	485	236
Dividend income received from financial assets, available-for-sale	(94)	(153)	(94)	(153)
Interest income	(369)	(270)	(706)	(487)
Interest expense	2,501	2,147	4,688	4,356
Share of results of associated companies	328	408	630	3,657
Operating cash flow before working capital changes	8,501	7,523	15,828	8,758
Changes in working capital				
Trade and other receivables	(17,067)	(26,494)	(14,530)	(31,651)
Inventories	(1,085)	111	6,260	15,764
Other current assets	(42)	(551)	(843)	(946)
Other assets (non-current)	11	(24)	(25)	3
Trade and other payables	(618)	13,798	(18,351)	16,631
Cash (used in)/from operations	(10,300)	(5,637)	(11,661)	8,559
Income tax paid	(542)	(1,546)	(1,798)	(2,374)
Net cash (used in)/provided by operating activities	(10,842)	(7,183)	(13,459)	6,185

	Second Quarter		Year-To-Date	
	2Q2017	2Q2016	30/06/2017	30/06/2016
	US\$'000	US\$'000	US\$'000	US\$'000

Cash flows from investing activities

Payments for intangible assets (computer software license costs)	-	-	(16)	(132)
Payments for property, plant and equipment	(113)	(654)	(250)	(839)
Proceeds from disposal of property, plant and equipment	11	64	11	64
Proceeds from sale of financial assets, available-for-sale	-	1,468	-	1,621
Net cash (outflow)/inflow on acquisition of subsidiaries	(65)	-	(65)	2,233
Payments for acquisition of additional interests in an associated company	-	-	-	(4,996)
Payments for financial assets, available-for-sale	-	-	-	(6)
Dividend received from an associated company	-	-	-	154
Dividend received from financial assets, available-for-sale	94	153	94	153
Interest received	362	238	675	448
Net cash provided by/(used in) investing activities	289	1,269	449	(1,300)

Cash flows from financing activities

Payment for investment in a subsidiary by non-controlling interests	-	-	-	40
Dividend paid	(1,091)	(3,336)	(1,091)	(3,336)
Proceeds from bank borrowings	205,708	181,279	434,446	384,487
Repayment of bank borrowings	(214,070)	(189,291)	(425,270)	(367,848)
Repayment of other borrowings	-	(1,486)	-	(2,965)
Repayment of finance lease liabilities	(5)	(4)	(10)	(10)
Interest paid	(2,719)	(2,005)	(4,849)	(3,781)
Net cash (used in)/provided by financing activities	(12,177)	(14,843)	3,226	6,587

Net (decrease)/increase in cash and cash equivalents held

Net (decrease)/increase in cash and cash equivalents held	(22,730)	(20,757)	(9,784)	11,472
Cash and cash equivalents at the beginning of the period	78,616	96,746	65,153	64,048
Effect of currency translation on cash and cash equivalents	233	(127)	750	342
Cash and cash equivalents at the end of the period	56,119	75,862	56,119	75,862

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 →											
	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	Non-controlling interests US\$'000	Total equity US\$'000
Balance at 1 January 2017	72,648	(736)	1,276	(257)	3,670	59	(771)	(2,683)	46,719	119,925	4,862	124,787
Total comprehensive income for the period	-	-	-	-	1,366	-	-	3,447	2,708	7,521	124	7,645
Closure of subsidiaries	-	-	-	-	-	-	-	-	-	-	(39)	(39)
Balance at 31 March 2017	72,648	(736)	1,276	(257)	5,036	59	(771)	764	49,427	127,446	4,947	132,393
Total comprehensive (loss)/income for the period	-	-	-	-	(1,720)	-	-	1,910	3,370	3,560	439	3,999
One-tier tax-exempt final cash dividend for year 2016	-	-	-	-	-	-	-	-	(1,091)	(1,091)	-	(1,091)
Acquisition of a subsidiary	-	-	-	-	-	-	-	-	-	-	40	40
Balance at 30 June 2017	72,648	(736)	1,276	(257)	3,316	59	(771)	2,674	51,706	129,915	5,426	135,341
Balance at 1 January 2016	72,648	(736)	1,276	(557)	(1,353)	59	(718)	(1,498)	46,680	115,801	3,583	119,384
Total comprehensive income/(loss) for the period	-	-	19	-	6,760	-	-	3,974	(6,559)	4,194	28	4,222
Investment in a subsidiary by non-controlling interests	-	-	-	-	-	-	-	-	-	-	40	40
Balance at 31 March 2016	72,648	(736)	1,295	(557)	5,407	59	(718)	2,476	40,121	119,995	3,651	123,646
Total comprehensive income/(loss) for the period	-	-	17	-	(725)	-	-	(2,009)	3,280	563	18	581
One-tier tax-exempt final cash dividend for year 2015	-	-	-	-	-	-	-	-	(3,336)	(3,336)	-	(3,336)
Balance at 30 June 2016	72,648	(736)	1,312	(557)	4,682	59	(718)	467	40,065	117,222	3,669	120,891

Statement of Changes in Equity - Company

	Share capital	Treasury shares	Capital reserve	Currency translation reserve	Retained earnings	Total equity
	US\$'000	US\$'000	US\$'000	US\$'000	US\$'000	US\$'000
Balance at 1 January 2017	72,648	(736)	180	17,589	14,109	103,790
Total comprehensive income for the period	-	-	-	-	937	937
Balance at 31 March 2017	72,648	(736)	180	17,589	15,046	104,727
Total comprehensive income for the period	-	-	-	-	827	827
One-tier tax-exempt final cash dividend for year 2016	-	-	-	-	(1,091)	(1,091)
Balance at 30 June 2017	72,648	(736)	180	17,589	14,782	104,463
Balance at 1 January 2016	72,648	(736)	180	17,589	13,908	103,589
Total comprehensive income for the period	-	-	-	-	436	436
Balance at 31 March 2016	72,648	(736)	180	17,589	14,344	104,025
Total comprehensive income for the period	-	-	-	-	876	876
One-tier tax-exempt final cash dividend for year 2015	-	-	-	-	(3,336)	(3,336)
Balance at 30 June 2016	72,648	(736)	180	17,589	11,884	101,565

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 also 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 2017.

There were no purchase, sale, transfer, disposal, cancellation and use of treasury shares since the end of the financial year ended 31 December 2016.

There were no outstanding share options as at 30 June 2017 (30 June 2016: 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>30/06/2017</u>	<u>31/12/2016</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 2017 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 2016.

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.

Please refer to paragraph 4 above.

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	
	2Q2017	2Q2016	30/06/2017	30/06/2016
Based on the weighted average number of ordinary shares in issue (in US\$); and	0.38 cent	0.36 cent	0.68 cent	-0.37 cent
On a fully diluted basis (in US\$)	0.38 cent	0.36 cent	0.68 cent	-0.37 cent

Earnings/(loss) 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 (2Q2016/1H2016: 895,841,914).

Earnings/(loss) 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 (2Q2016/1H2016: 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 2017 and 30 June 2016.

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	
	30/06/2017	31/12/2016	30/06/2017	31/12/2016
Net assets backing per ordinary share based on the existing issued share capital as at the end of the period reported on (in US\$)	15.11 cents	13.93 cents	11.66 cents	11.59 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 1H2017

The Group recorded turnover of US\$706.9 million for the half year ended 30 June 2017 ("1H2017") compared to US\$711.4 million from the same period last year ("1H2016").

Turnover for the electronic components distribution business increased 17% to US\$677.3 million, driven mainly by higher contributions from the Group's operations in Hong Kong, China and South Asia Pacific. Turnover from these three markets rose 23%, 35% and 7% respectively, boosted by higher demand for their product lines from new and existing customers. Turnover from Taiwan and South Korea declined 12% and 9% respectively due to both keen competition and slowdown in these markets.

Turnover for the Group's consumer products distribution business declined 79% to US\$27.5 million mainly due to lower sales across all subsidiaries as these entities exited or reduced sales in non-performing markets and low-margin products.

Overall gross profit margin increased to 7.1% in 1H2017 from 6.6% in 1H2016, due mainly to higher margins achieved by the consumer products distribution business. The increase was partly offset by lower margins earned by the electronic components distribution business affected by continued keen competition.

With the higher overall gross profit margin, reduced losses from associated companies, as well as lower currency translation loss and allowance for inventory obsolescence, the Group turned in a net profit after tax of US\$6.1 million in 1H2017, compared to a net loss of US\$3.3 million in 1H2016. Total expenses as a percentage of turnover declined to 6.2% in 1H2017 from 7.1% in 1H2016 on the back of improved operational and cost efficiencies.

Results for 2Q2017

The Group recorded turnover of US\$373.9 million for the second quarter ended 30 June 2017 ("2Q2017") compared to US\$378.6 million for the same period last year ("2Q2016").

Turnover for the electronic components distribution business grew 14% to US\$362.3 million, mainly due to higher demand for their product lines from new and existing customers in Hong Kong and China. Turnover increased 21% and 34% respectively in these two markets. Turnover from Taiwan, South Korea and South Asia Pacific declined 12%, 5% and 2% respectively, affected by both keen competition and slowdown in these markets.

Turnover for the Group's consumer products distribution business declined 83% to US\$10.4 million mainly due to lower sales across all subsidiaries as these entities exited or reduced sales in non-performing markets and low-margin products.

Overall gross profit margin increased to 7.0% in 2Q2017 from 6.6% in 2Q2016, due mainly to better margins achieved by the consumer products distribution business and the Group's Singapore and Taiwan electronic components distribution subsidiaries as a result of increase in sales of higher margin products. These higher gross margins were partly offset by lower margins at the Group's electronic components distribution business in Hong Kong, China and South Korea, affected by keen competition.

Other operating income decreased by US\$2.3 million or 63%, mainly due to the absence of gain from the sale of financial assets, available-for-sale, which amounted to US\$1.4 million in 2Q2016 and lower advertising and promotion income in 2Q2017.

Distribution expenses decreased by US\$0.6 million or 5%, mainly due to decline in advertising and promotion expenses, licence fees, storage costs, and staff and related costs. The decrease was partly offset by higher sales commission expenses, and freight and handling charges in 2Q2017.

Finance expenses increased by US\$0.4 million or 16%, mainly due to higher utilisation of trade facilities by the Group's Hong Kong electronic components distribution subsidiary to finance increase in working capital requirements. Higher interest rates in 2Q2017 when compared to 2Q2016 also contributed to the increase in finance expenses.

Other operating expenses decreased by US\$0.3 million or 7%, mainly due to lower impairment losses on goodwill arising from acquisition of subsidiaries and depreciation charges, as well as a net gain on derivative financial instruments versus a net loss on derivative financial instruments in 2Q2016. The decrease in other operating expenses was partly negated by a net currency translation loss in 2Q2017 versus a net currency translation gain in the previous period.

Total expenses as a percentage of turnover declined marginally to 5.9% in 2Q2017 from 6.0% in 2Q2016.

The Group's share of losses in associated companies in 2Q2017 amounted to US\$0.3 million which was mainly due to losses incurred by its 27.34%-owned SPL Holdings (Australia) Pty Ltd ("SPL"). SPL's losses was mainly due to high depreciation charges and amortisation of intangible assets arising from its acquisitions in recent years, and losses incurred by the two new plants in Adelaide and Perth, Australia which have yet to achieve optimal capacity.

The Group reported a net profit after tax of US\$3.4 million compared to US\$3.3 million in 2Q2016. The Group maintained its net margin at 0.9% in 2Q2017 compared to 2Q2016.

Balance sheet

Trade and other receivables increased by US\$20.8 million (net of factored trade receivables) mainly due to increased trade receivables in the Group's China and Singapore electronic components distribution subsidiaries in line with increase in sales and/or longer payment terms from certain customers. Average turnover day for trade receivables increased to 55 in 1H2017 from 49 in FY2016.

Inventories decreased by US\$5.1 million mainly due to lower inventory holding by the Group's electronic components distribution subsidiaries. The decrease was partially negated by higher inventory holding at the Group's Indonesia and Malaysia consumer products distribution subsidiaries.

Investments in associated companies increased by US\$1.6 million in 1H2017 mainly due to the reclassification of a US\$1.5 million deposit paid by the Group's wholly-owned subsidiary, Serial System International Pte Ltd, from other current assets to investments in associated companies. This followed the completion of an additional investment in 21% owned Tong Chiang Group in 1Q2017.

The Company's investments in subsidiaries increased by US\$2 million mainly due to the capitalisation of an amount of US\$2 million owing from the Company's wholly owned subsidiary, SCE Enterprise Pte Ltd.

Trade and other payables decreased by US\$14.3 million mainly as a result of lower trade payables at the Group's Hong Kong electronic components distribution subsidiary due to the timing of certain payments to suppliers. Average payment day for trade payables increased to 36 in 1H2017 from 33 in FY2016.

Borrowings increased by US\$10.6 million due to higher bank borrowings by the Group's Hong Kong electronic components distribution subsidiary for increased working capital requirements. This was partly offset by reduction in bank borrowings by the Group's Singapore electronic components distribution subsidiary.

Currency translation reserve rose by US\$5.4 million mainly due to an increase in the value of the Group's investments in its subsidiaries and associated companies arising from the weakening of the United States Dollar against these entities' functional currencies, in particular the Chinese Renminbi, Korean Won, Singapore Dollar and Australian Dollar.

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.

In its latest assessment of the global semiconductor industry, Gartner said in July 2017 that it expects semiconductor sales worldwide to reach US\$401.4 billion this year, an increase of 16.8% from 2016. This is higher than the market research firm's projection of US\$386 billion made in April 2017 and will be the first time global semiconductor revenue will surpass US\$400 billion in any single year if the forecast comes to pass. Memory products will be the main driver of semiconductor sales in 2017, according to Gartner.

The Group believes Gartner's outlook bodes well for its business given its close business ties with leading chip suppliers and electronics manufacturers as well as growing regional demand. In particular, the Group is of the view that demand for high-quality chips and electronic components in Hong Kong, China and South Asia Pacific, will continue to grow.

As part of efforts to further expand its presence in Hong Kong and China, the Group is looking to spin off its Hong Kong electronic components distribution entity, 91% owned Serial Microelectronics (HK) Limited group ("SMHK group"), through a listing on the mainboard of the Stock Exchange of Hong Kong Limited. As announced on 22 June 2017, the proposed listing of SMHK group will enable it to independently raise funds to support its growth in the burgeoning Chinese market. The SMHK group's customers are primarily China and Hong Kong-based manufacturers of smartphones, household appliances, consumer electronics, automotives and industrial products.

In the meantime, the Group will continue to further streamline its consumer products distribution business and explore promising investment opportunities with a view to improving the overall performance of this business.

Barring unforeseen circumstances, the Group expects to be profitable in FY2017.

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)	0.29 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)	0.18 cent per ordinary share
Optional:- Dividend Rate (in %)	
Par value of shares	Not applicable
Tax Rate	One-Tier Tax-exempt

c) Date payable

8 September 2017

d) Books closure date

The Share Transfer Books and Register of Members of the Company will be closed on 24 August 2017 for the preparation of dividend warrants. Duly completed registrable transfers received by the Company's Share Registrar, B.A.C.S. Private Limited at 8 Robinson Road, #03-00, ASO Building, Singapore 048544 up to 5.00 p.m. on 23 August 2017 will be registered to determine shareholders' entitlements to the interim dividend. Members whose Securities Accounts with The Central Depository (Pte) Ltd are credited with shares at 5.00 p.m. on 23 August 2017 will be entitled to the interim dividend which will be paid on 8 September 2017. In respect of ordinary shares in securities accounts with The Central Depository (Pte) Ltd ("CDP"), the interim dividend will be paid by the Company to CDP which will, in turn, distribute the dividend to holders of the securities accounts.

12. If no dividend has been declared/recommended, a statement to that effect.

Not applicable.

13. Interested person transactions.

Pursuant to Rule 907 of the Listing Manual of the Singapore Exchange Securities Trading Limited (the “Listing Manual”), the Board would like to announce the following Interested Person Transactions (“IPTs”) for 1H2017:

Name of Interested Person	Aggregate value of all IPTs during 1H2017 (excluding transactions less than S\$100,000 and transactions conducted under shareholders’ mandate pursuant to Rule 920 of the Listing Manual) US\$’000	Aggregate value of all IPTs during 1H2017 conducted under shareholders’ mandate pursuant to Rule 920 of the Listing Manual (excluding transactions less than S\$100,000) US\$’000
Nil	Nil	Not applicable

14. 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.

15. 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
4 August 2017