Securities Investors Association (Singapore)
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Email: admin@sias.org.sg www.sias.org.sg
UEN No: S99SS0111B
GST Reg No: M90367530Y

Issuer: Serial System Ltd

Stock code: S69

Meeting details:
Date: 28 April 2022
Time: 11.00 a.m.

Due to the current COVID-19 pandemic, SIAS encourage shareholders to participate at AGMs via other means and not to attend any AGM physically. Where the AGM is webcast, they can stay on top of their investments by watching the webcast and submitting their question to the company in advance. Senior citizens should avoid attending AGMs altogether and stay home.

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Q1. As noted in the corporate profile, the group has 21 offices and 13 warehousing facilities in key Asian markets – Singapore, China, Hong Kong, India, Indonesia, Malaysia, Philippines, South Korea, Taiwan, Thailand and Vietnam. It counts ON Semiconductor, OSRAM Opto Semiconductors, TE Connectivity, Micron, Allegro MicroSystems, GigaDevice, Littelfuse and Molex as its major suppliers.

For the year, revenue increased 22% to US$895.9 million from US$731.4 million a year ago, driven by improved performance in the electronic components distribution and consumer products distribution business segments.

Revenue from the electronic components distribution business increased 22% to US$814.6 million, propelled by higher demand for semiconductors, particularly in Hong Kong and China.

(i) **What are the additional value-added services offered by the group?**

(ii) **Are the price increases in line with the distribution agreements the group has with the principals?**

(iii) Given the "unprecedented shortage of chips worldwide", the high demand for components is a result of firms rushing to stockpile high-demand chips. **In management's opinion, how sustainable is this trend? What adjustments has the group made to its operations?**

(iv) **What is management's strategy to secure in-demand inventory from its suppliers?**

(v) The consumer products distribution business shows promise, growing by 40% to US$73.6 million. However, this is approximately 8% of the group's total revenue. Japan accounts for 0.5% of the total revenue. **What is the potential of the consumer products distribution business? Does the group have the necessary manpower and capital to scale this up?** In addition, Japan is a mature consumer market. **How does the group intend to scale up in Japan and how is it competing against the incumbents?**

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Q2. As shown in Note 40(a) Segment information: Operating segments, the group has three operating segments with the smallest being "Other businesses". The company has described the activities of "Other businesses" as follows:

> *Other businesses include investment holding and trading, investment holding and rental of investment properties, hospitality and healthcare solutions, assembly and distribution of medical devices and ethylene oxide sterilization, manufacturing of medical disposables and surgical supplies, provision of project financing in the form of leasing, hire purchase, factoring and loan, trading and distribution of consumer products, communications and power line construction, manufacturing, sale and leasing of industrial and security robots and automated guided vehicles, and provision of artificial intelligence and robotic solutions and services for security, delivery and mobility applications, provision of security services and management of commercial and industrial estate, retail sale of beverages and manufacturing and retail sale of organically grown health products.*

As shown in Note 40, "Other businesses" contribute 0.9% of the group's total revenue while accounting for $58.3 million or 13.6% of the group's total assets.

Segment loss from other businesses was $(545,000), with the share of results of associated companies reporting $(687,000).

The Group	Electronic components distribution US$'000	Consumer products distribution US$'000	Other businesses US$'000	Inter-segment eliminations US$'000	Total US$'000
2021					
Sales – external	**831,931**	**73,601**	**7,972**	**(17,611)**	**895,893**
Segment results - operating profit/(loss)	**17,580**	**636**	**(545)**	**–**	**17,671**
Unallocated gain	**6**	**–**	**9**	**–**	**15**
Finance income	**757**	**381**	**2,459**	**(1,272)**	**2,325**
Finance expense	**(4,306)**	**(741)**	**(1,479)**	**1,272**	**(5,254)**
Share of results of associated companies (after income tax)	**27**	**2**	**(687)**	**–**	**(658)**
Profit before income tax					**14,099**
Income tax expense					**(1,510)**
Profit after income tax					**12,589**
Segment assets	**403,112**	**40,072**	**58,281**	**(73,405)**	**428,060**
Investments in associated companies	**1,879**	**2,241**	**4,616**	**–**	**8,736**
Deferred income tax assets					**1,001**
Consolidated total assets					**437,797**
Segment liabilities	**96,676**	**16,037**	**50,474**	**(73,405)**	**89,782**
Borrowings	**144,832**	**20,558**	**18,818**	**–**	**184,208**
Current and deferred income tax liabilities					**2,412**
Consolidated total liabilities					**276,402**

(Source: company annual report)

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(i) **What are the long-term returns achieved from the "other businesses" segment? Is there a robust investment framework to guide the group's investments so that the group remains focused?**

(ii) **What is the level of oversight of the board and by management?**

(iii) In particular, the group is involved in litigation with Musang Durians Frozen Food (M) Sdn. Bhd. for the breach of the terms of the shareholder agreement and seeks to recover the outstanding loan amount and unpaid interest totaling RM15.45 million. **Can the company help shareholders understand if there is any synergy between durian products trading and electronic components distribution? If not, what was the rationale to invest in this? What is the current status of Musang Durians Frozen Food and the state of the relationship with the management team?**

(iv) **Would the board consider it timely to carry out a strategic review with the goal of streamlining and divesting the group's other businesses and to focus on the core business of electronic components distribution?**

Q3. As disclosed in the corporate governance report, the company has an in-house internal audit function that reports directly to the audit committee (AC). For the year under review, the internal auditor (IA) has unrestricted access to all of the group's documents, records, properties and personnel.

The IA is independent of the activities it audits. The IA is a certified internal auditor with relevant qualifications and experience. As noted in the corporate profile, the group has 21 officers and 13 warehousing facilities in several key Asian markets, and over 5,000 customers. Revenue for the year was US$895.9 million.

(i) **Can the AC confirm that the group's in-house internal audit function is a single individual?**

(ii) **On what basis did the AC consider that the IA function was adequately resourced?**

(iii) **Given that national borders were mostly closed in FY2020 and FY2021, did the IA face any challenges when carrying out his/her activities, especially in the coverage of the overseas operations?**

(iv) **Can the AC confirm that all the major operating subsidiaries and joint ventures were included in the IA plan?**

(v) **What was the scope of the internal audit in FY2021? What were the key findings by the internal auditor?**

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^On 1 October 2020, the Accounting and Corporate Regulatory Authority ("ACRA"), the Monetary Authority of Singapore ("MAS") and Singapore Exchange Regulation ("SGX RegCo") published an updated checklist to guide listed entities on the conduct of general meetings arising from the latest updates from the Multi-Ministry Taskforce.

Issuers may continue to conduct their general meetings held on or before 30 June 2021 via electronic means, and are encouraged to do so. On 9 April 2021, it was announced that the alternate arrangements for meetings ("Meetings Order") would be extend beyond 30 June 2021 until it is revoked or amended by the Ministry of Law. Accordingly, until such time, issuers may continue to utilise the Checklist issued by ACRA, MAS and SGX RegCo to guide entities on the conduct of their general meetings.

Issuers who, after due consideration of public health and other risks, wish to provide for physical attendance at their general meetings must ensure that they implement all relevant measures to comply with the safe management measures imposed by the Singapore Government.

Shareholders are welcome to use and/or adapt the questions prepared by SIAS and to forward them to the company.

Can't attend the AGM or view the webcast? Check out the latest questions on the annual reports of listed companies on SIAS website

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^ Guidance on the Conduct of General Meetings Amid Evolving COVID-19 Situation (https://www.sgx.com/media-centre/20201001-guidance-conduct-general-meetings-amid-evolving-covid-19-situation)