



SERIAL SYSTEM LTD
新暉科技有限公司

(Incorporated in the Republic of Singapore on 22 April 1992)
(Company Registration No. 199202071D)

PROPOSED RENOUNCEABLE NON-UNDERWRITTEN RIGHTS ISSUE ON THE BASIS OF ONE (1) RIGHTS SHARE FOR EVERY FIVE (5) EXISTING ORDINARY SHARES

1. INTRODUCTION

The Board of Directors (the “**Directors**”) of Serial System Ltd (the “**Company**”) wishes to announce a proposed renounceable non-underwritten rights issue of up to 142,742,829 new ordinary shares (“**Rights Shares**”) in the Company, at an issue price of S\$0.055 for each Rights Share (the “**Issue Price**”) on the basis of one (1) Rights Share for every five (5) ordinary shares in the capital (“**Shares**”) of the Company held by Entitled Shareholders (as defined in paragraph 2 below) as at Book Closure Date (as defined in paragraph 2 below) to be determined by the Directors, fractional entitlements to be disregarded (the “**Rights Issue**”).

An application will be made to the Singapore Exchange Securities Trading Limited (“**SGX-ST**”) for permission to deal in and for the listing of and quotation for the Rights Shares on the SGX-ST.

DMG & Partners Securities Pte. Ltd. has been appointed as Manager for the Rights Issue.

2. PROPOSED PRINCIPAL TERMS FOR THE RIGHTS ISSUE

The non-underwritten Rights Issue is proposed to be offered on a renounceable basis to Shareholders whose registered addresses with the Company or the Central Depository (Pte) Ltd (“**CDP**”), as the case may be, are in Singapore, or who have, at least five (5) market days prior to the Books Closure Date provided to the Company or CDP, as the case may be, addresses in Singapore for the service of notices and documents (“**Entitled Shareholders**”) on the basis of one (1) Rights Share for every five (5) Shares held by Shareholders as at the time and date to be determined by the Directors (“**Book Closure Date**”) for the purpose of determining the Shareholders’ entitlements at the issue price of S\$0.055 for each Rights Share.

The issue price of S\$0.055 for each Rights Share represents a discount of 15.38% to the last transacted price of S\$0.065 per Share on the SGX-ST as at the close of the market at 12.30p.m. on 31 December 2008, prior to the making of this Announcement.

The Rights Shares are payable in full upon acceptance and/or application. The Rights Shares, when allotted and issued, will rank *pari passu* in all respects with the then issued Shares except that they will not be entitled to participate in any dividends, rights, allotments or other distributions, the Record Date for which is before the date of issue of the Rights Shares. For this purpose, “**Record Date**” in relation to any dividends, rights, allotments or other distributions refers to the date as at the close of business (or such other time as may have been notified by the Company) on which Shareholders must be registered or the securities accounts maintained by the Shareholders with CDP must be credited with Shares, in order to participate in such dividends, rights, allotments or other distributions.

For practical reasons and in order to avoid any violation of securities legislation applicable in countries other than Singapore, the Rights Shares will not be offered to Shareholders who, as at the Books Closure Date, did not have registered addresses in Singapore (as set out in the Company's Register of Members and/or Share Transfer Books or the records of CDP, as the case may be) and who had not, at least five (5) market Days prior to the Books Closure Date, provided to the Company or, in the case of Shareholders whose Shares were registered in the name of CDP, to CDP, addresses in Singapore for the service of notices or documents ("**Foreign Shareholders**"). The offer information statement ("**Offer Information Statement**") to be issued in relation to and for the purposes of the Rights Issue and the accompanying documents will not be mailed outside Singapore.

If it is practicable to do so, arrangements may, at the discretion of the Company, be made for the provisional allotments of Rights Shares which would otherwise have been provisionally allotted to Foreign Shareholders to be sold "nil paid" on SGX-ST as soon as practicable after dealings in the provisional allotments of Rights Shares commence and net proceeds arising therefrom will be dealt with in accordance with the terms set out in the Offer Information Statement to be issued for the Rights Issue.

Entitled Shareholders are at liberty to accept, decline or otherwise renounce or trade their provisional allotments of Rights Shares and will be eligible to apply for additional Rights Shares in excess of their provisional allotments under the Rights Issue.

Fractional entitlements to the Rights Shares will be disregarded in arriving at the Shareholders' entitlements and will, together with the provisional allotments which are not taken up or allotted for any reason, be aggregated and used to satisfy excess applications (if any), or disposed of or otherwise dealt with in such manner as the Directors may, in their absolute discretion, deem fit for the benefit of the Company. In the allotment of excess Rights Shares, preference will be given to Shareholders for rounding of odd lots, and substantial Shareholders and Directors will rank last in priority.

As at the date of this Announcement, the issued and paid-up share capital of the Company is S\$79,095,796, comprising 603,416,823 Shares.

As at the date of this Announcement, the Company has issued the following warrants:

- (i) 100,407,085 Warrants W090206, each Warrant W090206 carrying the right to subscribe one new share at an exercise price of S\$0.09 per share and with an expiry date of 6 February 2009, and
- (ii) 100,568,837 Warrants W101220, each Warrant W101220 carrying the right to subscribe one new share at an exercise price of S\$0.09 per share and with an expiry date of 20 December 2010.

As at the date of this Announcement, 85,534,325 Warrants W090206 remain unexercised ("**Exercisable Warrants W090206**") and 100,566,837 Warrants W101220 remain unexercised ("**Exercisable Warrants W101220**").

As at the date of this Announcement, the Company has 8,261,400 unissued shares under share options outstanding pursuant to the Serial System Executive Share Option Scheme ("**Exercisable Share Options**").

For the purposes of this Rights Issue, Dr Derek Goh Bak Heng ("**Dr Derek Goh**"), the Executive Chairman and Group Chief Executive Officer of the Company, will not exercise his 48,121,247 Exercisable Warrants W090206 and 35,943,987 Exercisable Warrants W101220 before the Books Closure Date.

Assuming (i) none of the Exercisable Warrants W090206, Exercisable Warrants W101220 and the Exercisable Share Options is exercised before the Books Closure Date (“**Minimum Base Scenario**”) and (ii) only Dr Derek Goh subscribes for his Entitled Rights Shares (as defined below) and none of the other Shareholders subscribe for their entitled Rights Shares and/or apply for excess Rights Shares, the minimum number of Rights Shares to be issued pursuant to the proposed Rights Issue shall be 43,132,785 Rights Shares. Assuming the Minimum Base Scenario, Dr Derek Goh’s shareholding in the Company will remain unchanged at 35.74% prior to the subscription of his Entitled Rights Shares.

Assuming (i) Dr Derek Goh does not exercise any of his Exercisable Warrants W090206 and Exercisable Warrants W101220, and the remaining Exercisable Warrants W090206 and Exercisable Warrants W101220 and 8,261,400 Exercisable Share Options are exercised before the Books Closure Date (“**Maximum Base Scenario**”) and (ii) all Shareholders subscribe for their entitled Rights Shares, the maximum number of Rights Shares to be issued pursuant to the proposed Rights Issue shall be 142,742,829 Rights Shares. Assuming the Maximum Base Scenario, Dr Derek Goh’s shareholding in the Company will reduce from 35.74% to 30.22% prior to the subscription of his Entitled Rights Shares

The Company will announce in due course the appropriate adjustments, if any, to be made to the options granted or to be granted under the Serial System Executives Share Option Scheme, the Exercisable Warrants W090206 and the Exercisable Warrants W101220, pursuant to the Rights Issue.

The terms and conditions of the Rights Issue are subject to such changes as the Directors may deem fit. The final terms and conditions of the Rights Issue will be contained in the Offer Information Statement to be despatched by the Company to Entitled Shareholders in due course.

3. IRREVOCABLE UNDERTAKING

As at the date of this Announcement, Dr Derek Goh holds 215,663,926 Shares amounting to 35.74% of the issued and paid-up capital of the Company. As Dr Derek Goh will not exercise his 48,121,247 Exercisable Warrants W090206 and 35,943,987 Exercisable Warrants W101220 before the Books Closure Date, based on his current shareholding in the Company, Dr Derek Goh is entitled to subscribe for 43,132,785 Rights Shares (“**Entitled Rights Shares**”). To show his support for the Rights Issue, Dr Derek Goh has irrevocably undertaken to apply and subscribe for and/or procure applications and subscriptions for his Entitled Rights Shares (“**Irrevocable Undertaking**”).

In view of the Irrevocable Undertaking, the Rights Issue will not be underwritten by any financial institution.

4. WAIVER OF MANDATORY OFFER OBLIGATION ARISING FROM PARTICIPATION IN THE RIGHTS ISSUE BY THE RELEVANT SHAREHOLDERS

The Company intends to seek approval from Independent Shareholders (as defined below) for a whitewash resolution (the “**Whitewash Resolution**”) pursuant to the Singapore Code on Take-overs and Mergers (the “**Code**”). Independent Shareholders refers to Shareholders who are independent from Dr Derek Goh and who are deemed to be independent for the purpose of voting on the Whitewash Resolution. The Rights Issue is conditional upon the passing of the Whitewash Resolution. In view of this, in the event that the Whitewash Resolution is not passed, the Rights Issue will not take place.

Under the Minimum Base Scenario, if all the Shareholders subscribe for all their Entitled Rights Shares, Dr Derek Goh’s shareholding in the Company would remain unchanged at 35.74%. However, assuming that under the Minimum Base Scenario,

Dr Derek Goh subscribes for all his Entitled Rights Shares and none of the other Shareholders subscribe for any of their respective Entitled Rights Shares, the shareholding of Dr Derek Goh in the Company will increase by 4.29%, from 35.74% to 40.03%, following the full subscription of his Entitled Rights Shares.

Under the Maximum Base Scenario, if all the Shareholders subscribe for all their Entitled Rights Shares, Dr Derek Goh's shareholding in the Company would remain unchanged at 30.22%. However, assuming that under the Maximum Base Scenario, Dr Derek Goh subscribes for all his Entitled Rights Shares and none of the other Shareholders subscribe for any of their respective Entitled Rights Shares, the shareholding of Dr Derek Goh in the Company will increase by 3.97%, from 30.22% to 34.19%, following the full subscription of his Entitled Rights Shares.

Dr Derek Goh has not provided an undertaking to apply and subscribe for and/or procure applications and subscriptions for excess Rights Shares. However, subject to Rule 877(10) of the SGX-ST Listing Manual on the ranking for allotment of excess Rights Shares, Dr Derek Goh may subscribe for excess Rights Shares on the basis that he will rank last in priority in the allotment of excess Rights Shares which are not taken up by the other Entitled Shareholders.

For illustrative purposes only, assuming (i) the Minimum Base Scenario and (ii) Dr Derek Goh subscribes for all his Entitled Rights Shares and all the excess Rights Shares, the shareholding of Dr Derek Goh in the Company will increase by 10.71%, from 35.74% to 46.45%.

For illustrative purposes only, assuming (i) the Maximum Base Scenario and (ii) Dr Derek Goh subscribes for all his Entitled Rights Shares and all the excess Rights Shares, the shareholding of Dr Derek Goh in the Company will increase by 11.63%, from 30.22% to 41.85%.

For each of the above scenarios, Dr Derek Goh will be required to make a mandatory offer for the Company ("**Mandatory Offer**") under Rule 14 of the Code, unless the obligation to make a Mandatory Offer is waived by the Securities Industry Council ("**SIC**") on such terms and conditions as it may impose.

In connection with the waiver of the obligation by Dr Derek Goh to make a Mandatory Offer (the "**Whitewash Waiver**") and as at the date of this announcement, a waiver from the SIC has been obtained. The waiver is subject to the satisfaction of certain conditions (the "**SIC Conditions**"), including, *inter alia*, the following:-

- (a) a majority of the Shareholders who are independent of Dr. Derek Goh and any parties acting in concert with him (the "**Independent Shareholders**"), present and voting at an extraordinary general meeting (the "**EGM**") to be convened before the issue of the Rights Shares, approving by way of a poll, a Whitewash Resolution to waive their rights to receive a Mandatory Offer for the Company from Dr. Derek Goh and any parties acting in concert with him;
- (b) the Whitewash Resolution being set out as a separate resolution from the other resolutions to be considered at the EGM;
- (c) Dr. Derek Goh and any parties acting in concert with him, as well as persons not independent of him, abstaining from voting on the Whitewash Resolution;

- (d) Dr. Derek Goh and any parties acting in concert with him did not purchase and are not to purchase any Shares or instruments convertible into, rights to subscribe for and options in respect of Shares:
 - (i) during the period between the date of this Announcement and the date on which the Independent Shareholders' approval is obtained for the Whitewash Resolution; and
 - (ii) in the 6 months prior to this Announcement but subsequent to negotiations, discussions or the reaching of understandings or agreements with the Directors in relation to the Rights Issue;
- (e) the Company appointing an independent financial adviser to advise the Independent Shareholders on the Whitewash Resolution;
- (f) the Company setting out clearly in the Circular:
 - (i) details of the Rights Issue and the acquisition of Rights Shares by Dr. Derek Goh under certain specified scenarios;
 - (ii) the dilution effect to the existing Shareholders of the acquisition of Rights Shares by Dr. Derek Goh in certain specified scenarios;
 - (iii) the number and percentage of voting rights in the Company as well as the number of instruments convertible into, rights to subscribe for and options in respect of Shares held by Dr. Derek Goh and any parties acting in concert with him as at the latest practicable date of the Circular;
 - (iv) the number and percentage of voting rights to be acquired by Dr. Derek Goh in certain specified scenarios;
 - (v) specific and prominent reference to the fact that the Independent Shareholders by voting for the Whitewash Resolution, are waiving their rights to a Mandatory Offer from Dr. Derek Goh and any parties acting in concert with him at the highest price paid by Dr. Derek Goh and any parties acting in concert with him for Shares in the 6 months preceding the Rights Issue;
 - (vi) that the waiver granted by the SIC to Dr. Derek Goh and any parties acting in concert with him from the requirement to make a Mandatory Offer is subject to the conditions set out in subparagraphs (a) to (f) above;
- (g) the Company obtaining the SIC's prior approval in advance for those parts of the Circular that refer to the Whitewash Resolution; and

- (h) to rely on the Whitewash Resolution, the acquisition of the Rights Shares by Dr. Derek Goh must be completed within three months of the approval of the Whitewash Resolution.

Pursuant to the SIC Conditions, the Company has appointed SAC Capital Private Limited as the independent financial adviser in respect of the Whitewash Resolution.

5. PURPOSE OF RIGHTS ISSUE AND USE OF PROCEEDS

Assuming (i) the Minimum Base Scenario, (ii) Dr Derek Goh subscribes for all his Entitled Rights Shares pursuant to the Irrevocable Undertaking and (iii) none of the other Shareholders subscribe for any of their respective Entitled Rights Shares, 43,132,785 Rights Shares will be issued and the net proceeds of the Rights Issue, after deducting the estimated expenses of S\$0.35 million, is expected to be approximately S\$2 million.

Assuming (i) the Maximum Base Scenario, (ii) Dr Derek Goh subscribes for all his Entitled Rights Shares pursuant to the Irrevocable Undertaking and (iii) all of the other Shareholders subscribe for all of their respective Entitled Rights Shares, 142,742,829 Rights Shares will be issued and the net proceeds of the Rights Issue, after deducting the estimated expenses of S\$0.35 million, is expected to be approximately S\$7.5 million.

The Company intends to use the proceeds from the Rights Issue to reduce the level of bank borrowings and strengthen the cash flows and working capital of the Company and its subsidiaries (the “**Group**”).

Pending the deployment of the net proceeds for the purposes mentioned above, the net proceeds may be placed as deposits with financial institutions or invested in short-term money markets or marketable securities or used for any other purposes on a short-term basis as the Directors may, in their absolute discretion, deem fit.

6. APPROVALS

The Rights Issue is subject, *inter alia*, to:

- (a) the in-principle approval of the SGX-ST for the dealing in, listing of and quotation for the Rights Shares on the Main Board of SGX-ST;
- (b) the approval from the Shareholders at the EGM for the Rights Issue;
- (c) the Whitewash Resolution having been passed by Independent Shareholders by way of a poll at the EGM; and
- (d) the lodgment of the Company’s Offer Information Statement with the Monetary Authority of Singapore.

Application will be made to the SGX-ST for permission to deal in and listing of and quotation for the Rights Shares on the SGX-ST. An appropriate announcement on the outcome of the application will be made in due course. The terms and considerations of the Rights Issue is subject to such changes as the Directors, after consultation with the Manager, may deem fit.

A circular containing, *inter alia*, the notice of the EGM and the details of the Rights Issue will be despatched to Shareholders in due course. The Offer Information Statement will be lodged with Monetary Authority of Singapore and despatched to Entitled Shareholders in due course following the EGM.

7. DIRECTORS' RESPONSIBILITY

The Directors of the Company (including those who may have been delegated detailed supervision of the preparation of this announcement) have taken all reasonable care to ensure that the facts stated in this announcement are fair and accurate and that no material facts have been omitted from this announcement, and they jointly and severally accept responsibility accordingly.

BY ORDER OF THE BOARD

Alex Wui Heck Koon
Company Secretary
31 December 2008