



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

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## RESPONSE TO SGX QUERIES ON THE COMPANY'S ANNUAL REPORT FOR THE FINANCIAL YEAR ENDED 31 DECEMBER 2019

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The board of directors (“**Board**”) of Serial System Ltd and its subsidiaries (“**Group**”) set out its responses to the queries raised by the Singapore Exchange Securities Trading Limited (the “**SGX-ST**”) on 30 April 2020 in relation to the Company’s Annual Report for the financial year ended 31 December 2019 as follows:-

### Query 1:

**Please explain the material discrepancy between the audited and unaudited financial statements for FY2019 with regard to the net cash from investing activities of US\$6,770,000 and US\$5,670,000 respectively.**

### Company’s response to Query 1:

The net cash from operating activities, net cash from investing activities and net cash used in financing activities in the audited consolidated statement of cash flows (“**ACF**”), as compared to the unaudited consolidated statement of cash flows (“**UCF**”), for the financial year ended 31 December 2019, are as follows:

	<b>As per UCF US\$’000</b>	<b>As per ACF US\$’000</b>	<b>Differences US\$’000</b>
Cash flows from operating activities	86,273	85,372	(901)
Cash flows from investing activities	5,670	6,770	1,100
Cash flows from financing activities	(104,139)	(104,338)	(199)

The differences are mainly due to reclassifications upon audit, of the following items among operating, investing and financing activities:

- i) Reclassification of third party loan receivable of US\$1,000,000 from payments for financial assets, at fair value through profit or loss included in investing activities to trade and other receivables included in operating activities, resulting in a decrease in cash flows from operating activities and a corresponding increase in cash flows from investing activities.
- ii) Reclassification of a convertible bond of US\$100,000 from financial assets, at fair value through profit or loss included in operating activities to payments for financial assets, at fair value through profit or loss included in investing activities, resulting in an increase in cash flows from operating activities and a corresponding decrease in cash flows from investing activities.
- iii) Reclassification of US\$200,000 from subscription of additional interests in subsidiaries by non-controlling interests included in financing activities to net cash inflow on step up acquisition from an associated company to a subsidiary included in investing activities, resulting in a decrease in cash flows from financing activities and a corresponding increase in cash flows from investing activities.

The remaining US\$1,000 for both cash flows from operating activities and cash flows from financing activities, relate to rounding differences.

The above reclassifications were inadvertently omitted in the unaudited financial results announcement and subsequently reclassified/rectified in the audited consolidated statement of cash flows. The Company has complied with Listing Rule 704(6) as the above differences relating to reclassifications, and have no impact on the net decrease in cash and cash equivalents held and the cash and cash equivalents at the end of the financial year ended 31 December 2019 in the consolidated statement of cash flows of the Company.

**Query 2:**

**Listing Rule 710 requires issuers to explicitly state, when deviating from the provisions prescribed in the Code of Corporate Governance 2018 (the “Code”), an explanation on how the practices it had adopted are consistent with the intent of the relevant principle. In this regard:**

**(a) Provision 3.1 of the Code states that:**

**“The Chairman and Chief Executive Officer (“CEO”) are separate persons to ensure an appropriate balance of power, increased accountability, and greater capacity of the Board for independent decision-making.”**

**We note that the Company has not complied with Provision 3.1 of the Code as the Company’s Chairman and CEO position is filled by the same person.**

**Where the Company’s practices deviate from the provisions of the Code, please explicitly state the provision from which it has deviated from and explain how the practices it had adopted are consistent with the intent of Principle 3 of the Code, which requires a clear division of responsibilities between the leadership of the Board and Management, and no one individual has unfettered powers of decision making.**

**(b) Provision 8.1 of the Code states that:**

**“The company discloses in its annual report the policy and criteria for setting remuneration, as well as names, amounts and breakdown of remuneration of:**

**(a) each individual director and the CEO; and**

**(b) at least the top five key management personnel (who are not directors or the CEO) in bands no wider than S\$250,000 and in aggregate the total remuneration paid to these key management personnel.”**

**We note the Company’s disclosure on remuneration at pages 43 and 44 of the annual report for FY2019. Where the Company’s practices deviate from the provisions of the Code, please explicitly state the provision from which it has deviated from and explain how the practices it had adopted are consistent with the intent of Principle 8 of the Code, which requires transparency on the Company’s remuneration policies, level and mix of remuneration, the procedure for setting remuneration and the relationships between remuneration, performance and value creation.**

**Company’s response to Query 2:**

- (a) As disclosed on Page 31 of the Corporate Governance Report (“CGR”) in the FY2019 Annual Report under Chairman and Chief Executive Officer, Principle 3: There is a clear division of responsibilities between leadership of the Board and Management, and no one individual has unfettered powers of decision making, the Board would like to add the following statement:

“The Board is aware that it has deviated from Provision 3.1 of the Code which states that “The Chairman and Chief Executive Officer (“CEO”) are separate persons to ensure an appropriate balance of power, increased accountability, and greater capacity of the Board for independent decision-making”.

The Board however opined that it would currently not be in the Group’s interests to institute a separation in the role of the Chairman from that of the Chief Executive Office (“CEO”), so as to ensure decision-making process of the Group would not be unnecessarily hindered.

The Board views that vesting the roles of both the Executive Chairman and CEO on Dr. Derek Goh Bak Heng, a Founder of the Company, who has been playing a pivotal and instrumental role in developing the Group’s businesses and providing the Group with strong leadership and vision, would allow for more effective planning and execution of business strategies.

As explained on Page 31 of the CGR in the FY2019 Annual Report, in view that Dr. Derek Goh Bak Heng is both the Executive Chairman and CEO of the Group, Mr Tan Lye Heng Paul has been appointed as the Lead Independent Director to co-ordinate and lead the Independent Directors in situations where the Chairman is conflicted, and provide enriched discussions and debate within the Board.

Further, as disclosed on Page 29 of the CGR in the FY2019 Annual Report, the Board comprises six Directors of which four directors are Independent Directors and one is a Non-Executive Director, thus representing a strong independent element on the Board, capable of open and constructive debates on relevant issues affecting the business affairs of the Group. The strong independent element on the Board allows for an appropriate of power, increased accountability, and greater capacity of the Board for independent decision-making. The Board therefore believes that there are adequate safeguards and checks in place to ensure decision making process by the Board is independent and based on collective decision making of all Directors without Dr. Derek Goh Bak Heng being able to exercise considerable concentration of power or influence and no one individual has unfettered powers of decision making.

- (b) The Company refers to page 44 of the CGR in the FY2019 Annual Report whereby the Company has disclosed the reasons for deviating from Provision 8.1 of the Code as follows:

“The Board is aware that the Code requires the remuneration of at least the top five key Management personnel of the Company (excluding the Directors or the CEO) to be disclosed. However, the Board after careful deliberation, believes that such information is best kept confidential as disclosing the same would be prejudicial to its business given the highly competitive business environment. There are other expected disadvantages such as potential staff motivational and retention issues that such detailed disclosures may bring. The annual aggregate remuneration paid to the top five key Management personnel (excluding the Directors or the CEO) for FY2019 is S\$2,639,914 and the remuneration bands for FY2019 are presented as follows”

Remuneration Bands	Number of Executives
S\$750,000 to S\$999,999	1
S\$500,000 to S\$749,999	2
S\$250,000 to S\$499,999	2

The Company would like to clarify that the disclosure should read as follows:

The Board is aware that **Provision 8.1** of the Code requires the remuneration of at least the top five key Management personnel of the Company (excluding the Directors or the CEO) to be disclosed. However, after careful deliberation, believes that such information is best kept confidential as disclosing the same would be prejudicial to its business given the highly competitive business environment. There are other expected disadvantages such as potential staff motivational and retention issues that such detailed disclosures may bring. The annual aggregate remuneration paid to the top five key Management personnel (excluding the Directors or the CEO) for FY2019 is S\$2,639,914 and the remuneration bands for FY2019 are presented, **in deviation from Provision 8.1 of the Code** as follows:"

The Company believes that shareholders' interest will not be prejudiced as a result of such non-disclosure of the amounts and breakdown of remuneration and name of each key Management personnel of the Company. With the Company's disclosure of their remuneration in bands of not wider than S\$250,000, shareholders are provided an insight into the level of remuneration paid to the top five Key Management personnel.

**Query 3:**

**Please provide information on whether the Group's internal auditor has the relevant experience and qualifications.**

**Company's response to Query 3:**

The Group's internal auditor has the relevant experience and qualifications. The Group's internal auditor has a total of 6 years of internal audit experiences; 4 years as an assistant internal audit manager with a subsidiary of a Hong Kong public-listed company and 2 years as a senior consultant with an international professional consulting firm. Prior to his internal audit career, he has 3 years of external audit experiences with international professional accounting firms.

The Group's internal auditor holds a Bachelor Degree in Accounting and Finance and is a member of the Institute of Internal Auditors Singapore.

**BY ORDER OF THE BOARD**

**Derek Goh Bak Heng**

Executive Chairman and Group CEO

1 May 2020