

Shareholder Questions & Answers

- 1. Describe Serial System's financial performance over the past few years. What strategies have you put in place to maintain or accelerate the growth trajectory?**

As shareholders are aware, the Group ceased its distributor relationship with major supplier Texas Instruments in December 2018, which resulted in a significant impact on revenue. In addition, the COVID-19 pandemic disrupted supply chains and affected businesses globally; Serial System was no exception, as reflected in our financial performance in FY2020; we reported a loss in the first half of FY2020 but managed a turnaround in the second half as business recovered, ending FY2020 in profit.

Shareholder Questions & Answers

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The management team has since completed a strategic review of operations and outlined several key strategies in an announcement on 21 December 2020.

These strategies include:

1. Expanding our electronic components product portfolio into upcoming core technologies such as 5G infrastructure, electric vehicles and data centres. We believe these segments hold significant potential for the semiconductor space, and we have made efforts to capture market share within these fast-growing segments.

Shareholder Questions & Answers

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2. We have also expanded our supplier relationships, by signing on distributorships directly or formed joint venture partnerships to distribute products of Micron, Allegro Microsystems, Renesas, as well as other leading semiconductor companies.
3. In response to the U.S-China trade war, Serial System has also been exploring opportunities to engage with China's leading domestic semiconductor companies, and have managed to sign up with a few of the promising companies.

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4. On the consumer products distribution front, we are expanding our distribution network for AMD beyond ASEAN in North Asia. This builds upon the increase in demand for desktop, portable computers and related peripherals amid the various movement control measures implemented by countries to curb the spread of COVID-19, as well as recent new product launches from Intel, AMD etc. We have also added new suppliers like Gigabyte, MSI, Philips and AOC to further increase our product ranges.

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5. Lastly, the COVID-19 pandemic has also allowed us to review our operations, and we have adopted since 2020 work-from-home and teleconferencing to reduce travel and accommodation costs. We have also streamlined and delayed many functions, lowering our cost structure, and have plans to further streamline operations by outsourcing certain back-end functions.

We have also reduced our global offices/warehouses and manpower by 20% and 30% respectively, to 40 locations and 700 workers. Our renewed cost structure, as well as our financial position, have helped us to emerge from the COVID-19 stronger.

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We are confident that these strategies will propel momentum in business recovery. We have laid a new foundation to respond to the 'new normal' and will redouble efforts from FY2021 and beyond. As business confidence recovers globally, we expect our financial performance to improve.

Shareholder Questions & Answers

2. What are the factors that are critical to Serial System's success against competition? What differentiates Serial System from competition?

Serial System has developed one of the largest electronic distributor networks in Asia Pacific; our wide network of suppliers and customer base – particularly in Greater China – stems from many years of hard work and building trust. Our extensive network combined with our localised management model further reinforces our value proposition as a distributor, which gives us an advantage over our competitors.

Shareholder Questions & Answers

2. What are the factors that are critical to Serial System's success against competition? What differentiates Serial System from competition? [Cont'd]

China will continue to lead the demand for semiconductors – which is gaining even greater importance due to emphasis on technology especially for data centres, 5G networks, electric vehicles etc. Hence, there will be continued strong demand for semiconductors from various suppliers, foreign and local. At the same, time we have already started building deep networks with local semiconductor companies which need our network and capabilities to widen their own market share. This domain expertise, international network, systems and processes are not easy to replicate. That said, we continue to increase suppliers, customers and improve our own internal processes.

Shareholder Questions & Answers

2. What are the factors that are critical to Serial System's success against competition? What differentiates Serial System from competition? [Cont'd]

Building on the experience in the distribution of electronic components, we are also seeing clear traction in other growth areas – finished consumer products, Managed Print Services (MPS) and 3D printing. This strategic diversification has already reaped fruits with some of our subsidiaries showing higher revenue during the pandemic.

Shareholder Questions & Answers

3. What notable developments can shareholders expect from Serial System in the coming year(s)?

Building on the initiatives implemented since FY2020, shareholders can expect:

1. A bigger network of suppliers and a wider range of electronic components, which will contribute to more revenue as business recovery gains momentum due to increased vaccination and stimulation measures.
2. Consumer products distribution to improve by an increase in range of products from both existing and new suppliers and increased demand for such products.
3. Increased penetration of MPS and 3D printing particularly in Asia Pacific.
4. The re-set in our internal operations has improved efficiencies. As business volume increases, we expect this to translate to better margin efficiency in the coming years.

ANNUAL GENERAL MEETING

Shareholder Questions & Answers

4. What are some of the key Environmental, Social and Governance factors that are material to the Group?

Serial System has consistently given back to the community through volunteering activities as well as contributing to charitable causes to aid the elderly, poor and needy as well as in areas such as healthcare, education, youth development, arts, culture and heritage. While our annual Lunar New Year celebrations visits to Tai Pei Old Folks Home have been put on hold in view of the health guidelines issued by the Singapore government to curb the spread of COVID-19, we continue to donate to various charitable foundations and programmes in FY2020.

Serial System has also pledged to donate S\$100,000 annually to Sian Chay Medical Institution, for a total period of 10 years, which amounts to S\$1 million to provide medical services to low-income families of all races and religion.

ANNUAL GENERAL MEETING

Shareholder Questions & Answers

4. What are some of the key Environmental, Social and Governance factors that are material to the Group? [Cont'd]

Serial System has also lowered our environmental footprint through our digital transformation. Through our robotic process automation, we digitized the submission of claims and archival of finance and human resources related documents, reducing our paper consumption by 21% to 367,000 pieces in FY2020 from 462,000 pieces in FY2019 (FY2018: 707,000 pieces). Our electricity and water consumption also saw notable savings.

ANNUAL GENERAL MEETING

Shareholder Questions & Answers

4. What are some of the key Environmental, Social and Governance factors that are material to the Group? [Cont'd]

Our people are key to the Group's long term growth and success. We are committed to providing an inclusive workplace with equal opportunities through employment, remuneration, training and promotion of staff regardless of gender, race, nationality, age and family status. In addition, the occupational health and safety of our people is of utmost importance to us. In light of the COVID-19 pandemic, we have put in place additional precautionary measures to ensure the safety of our staff. In FY2020, we recorded zero fatalities, severe injuries and occupational diseases involving our staff.

ANNUAL GENERAL MEETING

Shareholder Questions & Answers

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On Governance, we are committed to building ethical and transparent business through sound corporate governance principles, practices and processes to protect and enhance our shareholder value. Our Board has considered the benefits of diversity of Board members, and value skills, experience and background, with an emphasis on independence in decision making. Currently, our Board comprises six directors, four of which are independent.

Policies and procedures have been put in place in important areas like business code of ethics, anti-bribery and corruption, regulatory compliance, international trade compliance and cybersecurity and data privacy. No incidents of non-compliance in these areas has been reported in FY2020.

ANNUAL GENERAL MEETING

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On the Singapore Governance and Transparency Index 2020 by CPA Australia, NUS Business School's Centre for Governance , Institutions and Organisations, and Singapore Institute of Directors, Serial System Ltd has improved the ranking from 461 in 2019 to 75 in 2020 from a list of 570 listed companies in Singapore.

Our Sustainability Report 2020 will be released on SGXNET as well as our Corporate website in May 2021.

Shareholder Questions & Answers

5. What is Serial System's value proposition to its shareholders and potential investors? What do you think investors may have overlooked about Serial System's business?

Our value proposition is encapsulated in the following:

1. Our ability to re-purpose our entire business structure – increasing suppliers, customers, adding new business lines and improving internal efficiencies – in the face of two major crises, i.e. the cessation of Texas Instruments distributorship and the COVID-19 pandemic. This strategic review underscores the strength of our leadership and team cohesion to overcome obstacles and seize opportunities in the face of crisis and challenges.

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2. Serial System's market value is at a significant discount to Net Asset Value. We believe that this gap will be narrowed as investors appreciate the transformation that has already begun. Serial System has a strong history of recovering from each crisis and growing from strength to strength.

3. We have already stated that we expect financial performance in FY2021 to improve upon that of FY2020. We will build on this recovery in the years ahead to enhance shareholder value.