ANNOUNCEMENT

SERIAL SYSTEM LTD
新曄科技有限公司

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

(A) THE PROPOSED CAPITAL REDUCTION EXERCISE TO REDUCE THE ISSUED AND FULLY PAID-UP SHARE CAPITAL OF THE COMPANY; AND

(B) THE PROPOSED DISPOSAL BY THE COMPANY OF ITS INTEREST IN WINTECH MICROELECTRONICS CO., LTD

These matters are discussed in detail below.

(A) THE PROPOSED CAPITAL REDUCTION EXERCISE TO REDUCE THE ISSUED AND FULLY PAID-UP SHARE CAPITAL OF THE COMPANY

1. INTRODUCTION

The Board of Directors ("**Board**") of Serial System Ltd ("**Company**") wishes to announce that the Company is proposing to undertake a capital reduction exercise ("**Capital Reduction Exercise**") to cancel the capital of the Company which has been lost or is no longer represented by available assets as at 31 December 2005.

2. DETAILS OF THE PROPOSED CAPITAL REDUCTION EXERCISE

Pursuant to the changes introduced by the Companies (Amendment) Act 2005, effective on 30 January 2006, any amount which stood to the credit of the Company's share premium account is deemed to form part of the Company's share capital.

Following from the legislative changes as aforesaid and the lodgment of the relevant documentation with the Accounting and Corporate Regulatory Authority on 29 May 2006, the Company's issued and fully paid-up share capital increased by S$49,990,200 being the amount standing to the credit of the Company's share premium account, from S$36,465,862 to S$86,456,062.

With a view to restructuring the finances of the Company, the Board has accepted management's recommendation to undertake the Capital Reduction Exercise pursuant to section 78C of the Companies Act (Chapter 50) to reduce the issued and fully paid-up capital of the Company from the current sum of S$86,456,062 to S$64,615,413, by the cancellation of the issued and fully paid-up share capital that has been lost or is unrepresented by available assets.

The Capital Reduction Exercise will be effected in the following manner:

(a) reducing the issued and fully paid-up share capital of the Company from S$86,456,062 to S$64,615,413 by reducing the issued and fully paid-up share capital of the Company which has been lost or is unrepresented by available assets to the extent of S$21,840,649; and

(b) an amount equal to S$21,840,649 being the credit arising from the cancellation of the issued and fully paid-up share capital of the Company will be applied to write-off the accumulated losses of the Company as at 31 December 2005 amounting to S$21,840,649.

As at 6 July 2006, the Company has issued and fully paid-up share capital of S$86,456,062. Upon completion of the Capital Reduction Exercise, the Company will have issued and paid-up share capital of S$64,615,413.

The Capital Reduction Exercise will reduce the Company's accumulated losses as at 31 December 2005 from S$21,840,649 to S$Nil.

There will be no change in the number of shares in the Company ("**Shares**") held by the shareholders of the Company ("**Shareholders**") immediately after the Capital Reduction Exercise, nor will the Capital Reduction Exercise involve the payment to any Shareholders of any paid-up share capital of the Company.

3. RATIONALE FOR THE CAPITAL REDUCTION EXERCISE

The Company's audited accumulated losses as at 31 December 2005 amounted to S$21,840,649. The accumulated losses arose mainly due to provisions for impairment of investment in certain subsidiaries and provisions for inter-company receivables due from these subsidiaries (collectively referred to as the "**Provisions**"). The Provisions were due to losses incurred by the said subsidiaries, which are in the consumer digital appliances business, information technology solutions and services business, property and investment holding business or logistics support business.

The purpose of the Capital Reduction Exercise is to write-off S$21,840,649 representing accumulated losses of the Company as at 31 December 2005 ("**Accumulated Losses**"). This is to better reflect the financial position and share capital of the Company as well as cancel or reduce any issued and fully paid-up share capital which has been lost or unrepresented by available assets, as the case may be. In addition, the Capital Reduction Exercise will also allow the Company to reflect the accumulation of future distributable earnings (if any) in its accounts, which may help to put the Company in a better position to consider payment of future dividends out of any profits available for distribution.

4. CONDITIONS OF THE CAPITAL REDUCTION EXERCISE

The Capital Reduction Exercise is subject to, *inter alia*, the following:

(a) Shareholders' approval of a proposed special resolution ("**Capital Reduction Resolution**") at an extraordinary general meeting ("**EGM**"), to be approved by a majority of not less than three-fourths of the Shareholders present and voting at the EGM, of which not less than 21 days' notice of the EGM shall have been given;

(b) notification to the Comptroller of Income Tax that the Capital Reduction Resolution was passed, within 8 days beginning with the date of the Capital Reduction Resolution;

(c) compliance with the relevant publicity requirements;

(d) no application being made for the cancellation of the Capital Reduction Resolution by any creditor of the Company within the timeframe prescribed in the Companies Act, or if such application was made, the dismissal thereof by the judicial authorities; and

(e) lodgment with the Registrar of Companies ("**Registrar**") of (i) a directors' statement containing the relevant information required under the Companies Act (Chapter 50); and (ii) a notice containing the reduction information within the timeframe prescribed. Thereafter, the proposed Capital Reduction Resolution and Capital Reduction shall take effect when the Registrar has recorded the information lodged with him in the register.

5. FINANCIAL EFFECTS OF THE CAPITAL REDUCTION EXERCISE

The implementation of the Capital Reduction Exercise will not have any effect on the earnings, net tangible assets ("**NTA**") and gearing of the Company as the Capital Reduction Exercise is an accounting procedure that writes off all the accumulated losses amounting to S$21,840,649 representing accumulated losses of the Company as at 31 December 2005 against the issued and fully paid-up share capital of the Company.

No capital will be returned to Shareholders and the number of Shares in the Company held by the Shareholders immediately after the Capital Reduction Exercise remains the same.

The financial effects are for illustrative purposes only. The financial effects of the Capital Reduction Exercise on the issued and fully paid-up share capital and shareholders' funds of the Company are based on the audited consolidated financial statements of the Company and its subsidiaries ("**Group**") for its financial year ("**FY**") 2005 and it is assumed that the Companies (Amendment) Act 2005 took effect on 31 December 2005 and the Capital Reduction Exercise was completed on 31 December 2005.

(i) Share Capital

The effect of the Capital Reduction Exercise on the issued and fully paid-up share capital of the Company as at 31 December 2005 is set out below:

	No. of shares	**S$**
Issued and fully paid-up share capital		
Before the Capital Reduction Exercise	364,657,621	86,455,902
Capital Reduction	—	(21,840,649)
After the Capital Reduction Exercise	364,657,621	64,615,253

(ii) Shareholders' Fund

The Capital Reduction Exercise will have the following impact on the shareholders' funds of the Company as at 31 December 2005:

	Before the Capital Reduction Exercise S$	**After the Capital Reduction Exercise S$**
Issued and fully paid-up share capital	86,455,902	64,615,253
Capital reserve	3,289,896	3,289,896
Share option reserve	111,185	111,185
Accumulated losses	(21,840,649)	-
Shareholders' funds	68,016,334	68,016,334

6. DIRECTORS' INTERESTS

No Director of the Company has any interest in the Capital Reduction (other than in his capacity as a Director or shareholder of the Company).

(B) THE PROPOSED DISPOSAL BY THE COMPANY OF ITS INTEREST IN WINTECH MICROELECTRONICS CO., LTD

1. INTRODUCTION

The Company proposes to seek approval from the Shareholders for a disposal mandate ("**Disposal Mandate**") to authorise the disposal by the Company of, in whole or in part, its entire interest in Wintech Microelectronics Co., Ltd ("**Wintech Interest**"). As at 6 July 2006, the Wintech Interest is approximately 20.81%. The Wintech Interest was acquired by the Company as a long-term investment. It is the Company's intention to dispose of the Wintech Interest ("**Disposal**") for cash as and when the opportunity arises in order to realise this long term investment for cash.

The Company intends to use the cash proceeds from the Disposal for the following purposes:

(a) fund the business operations of the Group and its expansion plans in the People's Republic of China, Hong Kong, Taiwan and South Korea;

(b) repay bank borrowings and fund the working capital needs of the Group; and/or

(c) fund any potential acquisitions or new venture opportunities.

Pending the deployment of the cash proceeds for the purposes mentioned above, the cash proceeds may be deposited with banks and/or financial institutions, invested in short-term money market instruments and/or marketable securities or used for any other purposes on a short-term basis, as the Directors may, in their absolute discretion, deem appropriate.

2. Requirement for Shareholders' Approval

Any disposal by the Group that is considered a "major transaction" based on Rule 1006 of the Listing Manual ("**Listing Manual**") of the Singapore Exchange Securities Trading Limited ("**SGX-ST**") must be made conditional upon approval by the Shareholders in a general meeting in accordance with Rule 1014 of the Listing Manual. In determining whether a disposal transaction or a series of disposal transactions is considered a major transaction, the SGX-ST may aggregate separate transactions completed within a 12 month period and treat these transaction as one under Rule 1005 of the Listing Manual.

While it may be that a single disposal transaction under the Disposal Mandate may, in itself, trigger the requirement of shareholders' approval in accordance with Rule 1014, the Directors anticipate that it is more likely that Shareholders' approval will be required for the disposal of the Wintech Interest due to the aggregation of a separate, smaller transactions, within a 12 month period, for reasons specified in Section B3 and Section B4 of this Announcement.

3. Information on Wintech and the Wintech Interest

In June 1994, the Company acquired a 51% interest in Wintech Microelectronics Co., Ltd ("**Wintech**") (then known as Serial Semiconductor Co., Ltd), a company incorporated in Taiwan in December 1993, to tap into the Taiwan market for its semiconductors/components distribution business. As part of the restructuring exercise pursuant to the Company's application for its admission to the Official List of the SGX-ST and the listing of all the Shares on the SGX-ST on 25 March 1997, the Company acquired an additional 4% of the issued share capital of Wintech on 19 March 1997.

The Company's interest in Wintech was diluted from 55% in March 1997 to approximately 35.7% in August 2000 pursuant to several issues of new shares by Wintech to raise funds for its expansion.

Wintech was listed on the Over-The-Counter Securities Exchange in Taiwan in September 2000. In line with the listing procedures in Taiwan, the Company's interest in Wintech was diluted from approximately 35.7% to 30.0% by the sale of 3,392,000 shares in Wintech ("**Wintech Shares**") to the market maker, Taiwan International Securities Corporation. From the said sale of the Wintech Shares, the Company realised a profit of approximately S$13.3 million at the Company level and approximately S$12.2 million at the Group level in FY 2000. Wintech was granted approval by the Securities and Futures Commission of Taiwan for the trading of the shares in Wintech to be transferred from the Over-The-Counter Securities Exchange to the Taiwan Stock Exchange Corporation with effect from 26 August 2002.

The Company's interest in Wintech was further diluted from approximately 35.7% in September 2000 to approximately 20.81% as at 6 July 2006. This was due to several issues of new Wintech Shares, payment by Wintech of its employees' bonuses by granting new Wintech Shares, conversion of convertible bonds issued by Wintech to new Wintech Shares by bondholders and open market sales of Wintech Shares by the Company in FY 2003 and FY 2004.

Based on the latest information available to the Company, as at 31 May 2006, Wintech had an issued and paid-up share capital of approximately NT$1,522,248,210 comprising 152,224,821 Wintech Shares and the net assets value per Wintech Share amounted to approximately NT$23.82. As at 6 July 2006, the market price per Wintech Share is NT$21.50.

4. The Disposal Mandate

(a) Rationale for seeking the Disposal Mandate

The Company anticipates that the disposal of the Wintech Interest is likely to be effected through separate transactions of smaller lots of the Wintech Interest.

Each such transaction will be negotiated separately and it is likely that the selling price for portions of the Wintech Interest will differ, depending on factors such as the size of the portion of the Wintech Interest, the market value of the Wintech Interest, the nature of any restrictions imposed on the Wintech Interest and the bargaining power of the Company and each potential purchaser.

The Company has been actively sourcing for purchasers for the Wintech Interest and understands that typically, vendors of assets of this nature must be able to commit to unconditional and binding agreements in a very short time frame as purchasers are not usually willing to enter into agreements which are subject to both (i) shareholders approval; and (ii) the time required to obtain shareholders' approval for each and every transaction involving the disposal of the Wintech Interest which is either in itself, or when aggregated, considered to be a "major transaction" pursuant to the Listing Manual. The Company understands that this practice has arisen as purchasers of such assets typically purchase and dispose of such assets within a very short time frame in order to maximise their investments, and consequently, would not be willing to commit to an acquisition if the vendor is unable to complete the same within a matter of days.

For the reasons specified above, the Directors believe that it is important that the Company obtains shareholders' approval for the Disposal Mandate in order for the Group to dispose of the Wintech Interest as quickly as possible, and for the best price possible, by allowing the Company the flexibility to act quickly and decisively on opportunities that will maximise the disposal value of the Wintech Interest.

(b) Manner of Disposal

As at 6 July 2006, the Company's shareholding in Wintech is approximately 20.81%, comprising 31,682,949 Wintech Shares. Upon obtaining the Disposal Mandate, the Company will proceed to dispose the Wintech Interest on the open market or through married deals or private placements to potential purchasers at the best possible price, which approximates the prevailing market price at the time of disposal, and on an arms' length basis. The Company will ensure that any sale of the Wintech Interest will be carried out in full compliance with Taiwanese securities laws and the rules of the Taiwan Stock Exchange Corporation.

(c) Validity of the Disposal Mandate

The Disposal Mandate will take effect upon the Shareholders approving the same on the date of the EGM and continue in force for 12 months from the date of such approval, unless prior thereto, the Disposal Mandate is carried out to the full extent mandated.

(d) Shareholders' Protection

In order to protect Shareholders' interests for transactions carried out under the Disposal Mandate, the following safeguards will be instituted:

(i) the executive Directors of the Company have undertaken that each transaction carried out under the Disposal Mandate will be carried out at the best possible price, which approximates the prevailing market price at the time of disposal of the Wintech Interest, in whole or in part, and on an arms' length basis; and

(ii) in the event that any transaction covered under the Disposal Mandate is an interested person transaction as described in Chapter 9 of the Listing Manual, the Company will seek the approval of the Shareholders and the SGX-ST for such a transaction to the extent required by the Listing Manual.

(e) Disclosure of Information

In order to keep shareholders informed of the transactions conducted under the Disposal Mandate, the Company will do the following:

(i) in the event that any one transaction conducted under the Disposal Mandate, or any further transaction (when aggregated with all previous transactions conducted under the Disposal Mandate) exceeds 5% of any of the relative figures computed on the bases set out in Rule 1006 of the Listing Manual, the Company will make an announcement setting out the information required under Rule 1010 of the Listing Manual (a "**Disclosable Transactions Announcement**"). For the purpose of making a Disclosable Transactions Announcement, the Company will disregard any transactions which have already previously been disclosed in a Disclosable Transactions Announcement.

(ii) In the event any one transaction conducted under the Disposal Mandate, or any further transaction conducted under the Disposal Mandate (when aggregated with all previous transaction conducted under the Disposable Mandate) exceeds 20% of any of the relative figures computed on the bases set out in Rule 1006 of the Listing Manual, the Company will make an announcement setting out the information required under Rule 1010 of the Listing Manual (a "**Major Transactions Announcement**"). For the purposes of making and issuing a Major Transactions Announcement, the Company will disregard any transaction which has already been previously disclosed in a Major Transactions Announcement.

Upon the earlier of the disposal of all of the Company's Wintech Interest or the expiry of the Disposal Mandate, the Company will make an announcement of such fact.

5. Financial Effects

For illustrative purposes only, the financial effects of the Disposal on the Group as set out below were prepared based on the audited consolidated financial statements of the Group for FY 2005 and subject to the following assumptions:

(a) For the purpose of calculating the NTA and gearing of the Group after the Disposal, it is assumed that on 31 December 2005, the entire Wintech Interest is disposed by the Company at the Company's cost of investment in Wintech of approximately NT$697,384,380 (S$34,869,219) or approximately NT$22.01 per Wintech Share.

(b) For the purpose of calculating the earnings and the earnings per Share ("**EPS**") of the Group after the Disposal, it is assumed that on 1 January 2005, the entire Wintech Interest is disposed by the Company at the Company's cost of investment of approximately NT$688,594,180 (S$34,429,709) or approximately NT$25.54 per Wintech Share and no adjustments had been made in respect of any gains or loss that might have been derived from the utilisation of the cash proceeds from the Disposal.

(i) Share Capital

As at 6 July 2006, the issued and fully paid-up share capital of the Company is S$86,456,062 comprising 364,658,621 ordinary shares. Upon completion of the Disposal, the issued and fully paid-up share capital of the Company will remain the same.

(ii) NTA

The effects of the Disposal on the NTA of the Group per Share for FY 2005 (assuming that the Disposal had been effected on 31 December 2005) are summarised below:

	Before the Disposal	**After the Disposal**
NTA excluding investment in Wintech	41,401,788	76,271,007
Investment in Wintech	34,869,219	-
NTA	76,271,007	76,271,007
Number of Shares as at 31 December 2005	364,657,621	364,657,621
NTA per Share (cents)	20.92	20.92

(iii) Earnings and EPS

The effects of the Disposal on the earnings and EPS of the Group for FY 2005 (assuming that the Disposal had been effected on 1 January 2005) are summarised below:

	Before the Disposal	**After the Disposal**
Consolidated loss after taxation and minority interests but before share of profit after tax of Wintech and loss on dilution of interest in Wintech	(6,674,247)	(6,674,247)
Share of profit after tax of Wintech	1,074,736	-
Loss on dilution of interest in Wintech	(389,972)	-
Consolidated loss after taxation and minority interests	(5,989,483)	(6,674,247)
EPS (cents)	(1.97)	(2.19)

(iv) Gearing

The financial effects of the Disposal on the gearing of the Group as at 31 December 2005 (assuming that the Disposal had been effected on 31 December 2005) are set out below:

	Before the Disposal	**After the Disposal**
Total borrowings	54,589,062	54,589,062
Shareholders' funds excluding investment in Wintech	50,907,955	85,777,174
Investment in Wintech	34,869,219	-
Shareholders' funds	85,777,174	85,777,174
Gearing ratio (times)	0.64	0.64

6. INTERESTS OF DIRECTORS AND CONTROLLING SHAREHOLDERS

None of the Directors or controlling Shareholder has any interests, indirect or direct, in the proposed Disposal Mandate.

The Company has submitted a draft circular ("**Circular**") for the proposed Capital Reduction Exercise and Disposal Mandate to the SGX-ST for clearance. Upon obtaining the said clearance, the Circular, together with the notice of EGM, will be dispatched to Shareholders in due course.

By Order of the Board

Dr. Derek Goh Bak Heng
Executive Chairman and Group Chief Executive Officer
06 July 2006
Singapore