



IPS SECUREX HOLDINGS LIMITED
(Company Registration No. 201327639H)
(Incorporated in Singapore)
(the "Company")

RESPONSE TO QUESTIONS FROM SHAREHOLDERS AND THE SECURITIES INVESTORS ASSOCIATION (SINGAPORE) IN RESPECT OF THE COMPANY'S ANNUAL REPORT AND ANNUAL GENERAL MEETING FOR THE FINANCIAL YEAR ENDED 30 JUNE 2021

The Board of Directors (the "**Board**" or "**Directors**") of IPS Securex Holdings Limited (the "**Company**" and, together with its subsidiaries, the "**Group**") wishes to address the queries raised by Securities Investors Association (Singapore) ("**SIAS**") and would like to thank all shareholders of the Company ("**Shareholders**") who submitted their questions relating to the Company's annual report ("**Annual Report**") for the financial year ended 30 June ("**FY**") 2021 in advance of the Annual General Meeting of the Company to be held by way of live audio-visual webcast and live audio-only stream on Thursday, 28 October 2021 at 9.00 a.m. (Singapore Time).

Substantial and relevant questions received from Shareholders have been grouped under a few key sections. Please refer to the Company's responses to the aforementioned questions from Shareholders and SIAS as set out in the Appendix hereto.

BY ORDER OF THE BOARD

Chan Tien Lok
Non-Executive Chairman
27 October 2021

*This announcement has been prepared by IPS Securex Holdings Limited ("**Company**") and has been reviewed by the Company's sponsor, United Overseas Bank Limited ("**Sponsor**"), for compliance with Rules 226(2)(b) and 753(2) of the Singapore Exchange Securities Trading Limited ("**SGX-ST**") Listing Manual Section B: Rules of Catalyst.*

This announcement has not been examined or approved by the SGX-ST. The SGX-ST assumes no responsibility for the contents of this announcement, including the correctness of any of the statements or opinions made or reports contained in this announcement.

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APPENDIX

(A) RESPONSES TO SUBSTANTIAL AND RELEVANT QUESTIONS FROM SHAREHOLDERS

FY2021 Financial Results

- 1(a) With reference to page 92 of the Annual Report about “Investment in subsidiaries”. For “Securex GS Pte Ltd”, does it belong to Security solutions segment, or Maintenance and leasing segment? Please refer to page 90 of the Annual Report about “Plant and equipment”. For “Securex GS CGU”, does it belong to Security solutions segment, or Maintenance and leasing segment?
- 1(b) Please refer to page 91 of the Annual Report about “Investment in subsidiaries”. It was stated that “As the estimated recoverable amount was lower than cost of investment, an impairment loss of \$1,344,160 (2020: Nil) was made.” What caused Securex GS Pte Ltd’s “operating profits being lower than originally budgeted” in FY2021?
- 1(c) What caused Securex GS CGU’s “low profitability” and “operating profits being lower than originally budgeted” in FY2021?

Company’s Response

Securex GS Pte Ltd’s (“SGS”) business operations include both the Security Solutions segment (for security solutions products and integrated security solutions) and the Maintenance and leasing segment (for service maintenance and leasing programs). The plant and equipment under SGS, thus falls under both segments.

The poor economic environment and weak customer demand due to the ongoing COVID-19 pandemic and the Singapore government’s various measures to curb its spread has led to project delays which had affected the profitability of SGS in FY2021.

As disclosed on page 91 of the Annual Report, the Company assesses at each reporting date whether there is any indication that its investment in subsidiaries is impaired. To determine whether there is indication of impairment, the Company considers factors such as a significant deterioration in the financial position of the subsidiaries or the subsidiaries are experiencing significant financial difficulties. In FY2021, management determined that the estimated recoverable amount of SGS based on the present value of the future cash flows expected to be derived from its underlying assets was lower than the Company’s cost of investment in SGS due to the reasons as aforementioned. Consequently, the said impairment loss of \$1,344,160 was recorded in FY2021 and this is consistent with the Group’s accounting policies, in particular, as disclosed on page 84 in Note 3.7 “Significant Accounting Policies – Impairment” of the Annual Report.

- 2** Please refer to page 10 of the Annual Report about “Revenue”. It was stated that “The Group also experienced a S\$7.8 million decrease in revenue from providing integrated security solutions in Singapore due to a delay in receiving required government approvals.” How much of this S\$7.8m decrease in revenue has the Group managed to recover from receiving required government approvals?

Company’s Response

The Company will update Shareholders on this matter in its SGXnet announcement for its financial results for the six months ending 31 December 2021.

- 3** Please refer to page 100 of the Annual Report about “Revenue”. Why “Rental income” declined by 19.4% from \$1,412,151 in 2020 to \$1,137,849 in 2021? Was it mainly due to “expiration of a 7-year lease-and-maintenance contract with the Housing & Development Board”, or were there other major reasons?

Company’s Response

Yes, it was mainly due to the expiration of a 7-year lease-and-maintenance contract with the Housing & Development Board that covers a certain district only.

- 4(a)** Please refer to page 94 of the Annual Report about “Trade and other receivables”. How much of the \$4,563,644 “Impairment loss on trade receivables” in FY2020 has been collected back so far?

Company’s Response

The Group is actively pursuing and discussing with its customers to collect the outstanding amount.

- 4(b)** How much of the \$213,666 “Impairment loss on trade receivables” in FY2021 has been collected back so far?

Company’s Response

The Group has collected approximately 28% of the impairment loss on trade receivables in FY2021 as at 30 September 2021 and is actively pursuing and discussing with its customers to collect the outstanding amount.

- 5 **In FY2020, the Gross Profit Margin (GPM) was 39.1%, yet the impairment loss rate on trade receivables was as high as 50.4%. In FY2021, the results margin from operating activities was 1.48%, yet the impairment rate on trade receivables was 9.1%. Assuming there was no impairment loss on trade receivables from “government bodies and agencies”, it was likely that most impairment loss came from non-government bodies and agencies. May I ask the Audit Committee is the Group choosing wrong customers from private sector?**

Company’s Response

All of the Group’s customers in both public and private sectors are required to go through our Know-Your-Customer (“KYC”) onboarding processes and necessary reviews. The Group assesses local customers’ creditworthiness by reviewing their financial standings through publicly available records and conducting an internal credit review on an annual basis. The Group also monitors the collection of payments and trade receivables past due on a regular basis. Any specific provision or write-off will only be made when the collectability of an outstanding debt is doubtful or when the debt is uncollectible.

Due to the higher comparative political risk in the countries that the Group’s customers operate in, the Group is occasionally exposed to unexpected political and operating circumstances. Changes or shifts in political leadership for example, may be accompanied by budget and internal reviews which may cause delays to customers’ planned projects and in some cases, a postponement or even cancellation of projects. In such scenarios, the Group will monitor the situation and continue the dialogue with its customers, since their security concerns will still exist.

- 6 **Please refer to page 94 of the Annual Report about “Inventories”. While the Group’s revenue has declined by 55.0% yoy, inventories had increased 3.1times from \$1.63m in 2020 to \$5.10m in 2021. May I ask the Audit Committee has the Group over-stocked on those slow-moving inventories?**

Company’s Response

No, the Group has not over-stocked on slow-moving inventories. The increase in stock relates to requirements for a project that is in progress.

- 7 **Please refer to page 92 of the Annual Report about “Other investment”. It was stated that “The above club membership is held in trust by a director”. What club membership is this? And which director is holding in trust?**

Company’s Response

The club membership relates to a social (non-golf) membership of Seletar Country Club, of which our Executive Director and CEO Mr Kelvin Lim is holding in trust.

Corporate Governance

- 8 Please refer to page 41 of the Annual Report about “Corporate governance report”. Despite the Group’s revenue declining by -55.0% yoy and net profit declined by 95.3% yoy, the aggregate total remuneration paid to the four (4) key management personnel (who are not Directors or the Group CEO) i.e Lee Yeow Koon/ Lee Siew Han/ Lee Chea Siang/ Boey Teik Heng has increased by 18.1% from \$633,567 in 2020 to \$748,364 in 2021. Can the Remuneration Committee share what remuneration factor(s) specifically led to the increase? How much is attributable to each of these remuneration factor(s)?

Company’s Response

As the security solutions industry is a niche and specialised industry, the Group believes in retaining talents that can contribute to its long-term goals. In particular, one of the key management personnel had his work scope expanded to include sales and had also received a one-off bonus following the completion of a major project.

(B) RESPONSES TO QUESTIONS FROM SIAS

Question 1

In FY2020, the group experienced a significant increase in revenue after years of declining revenue. In FY 2021, revenue slipped to a new low of \$8.69 million.

The trend in the group’s consolidated revenue is shown below:

FY2014 – \$12.45 million
FY2015 – \$15.66 million
FY2016 – \$12.77 million
FY2017 – \$11.57 million
FY2018 – \$10.87 million
FY2019 – \$8.98 million
FY2020 – \$19.32 million
FY2021 – \$8.69 million

The increase in FY2020 was due to a significant increase in revenue to \$13.6 million in the security solutions segment. In FY2021, revenue from the security solutions segment decreased by \$10 million to \$3.6 million.

- (i) **Would management help shareholders understand how much of the decrease in revenue could be attributed to the pandemic?** While the pandemic might have disrupted travel and cut organisations’ budgets, the decrease in revenue could be observed from as early as FY2016.
- (ii) **Would management consider disclosing the order book on a regular basis during its routine results announcement?** Doing so would allow shareholders to understand the progress made by the group in securing project-based contracts and improve the visibility of the group’s earnings.

- (iii) **How much of the group's revenue and profits can be attributed to (a) government bodies and agencies, and (b) private commercial entities?**
- (iv) **Does the group have the right product portfolio, the support of an experienced technical team, and complemented by a competent sales team to enable the group to gradually and consistently scale up sales year-on-year in the security solutions segment? What is the breakdown in revenue by classes of products and by brands?**
- (v) It is also noted that the group constantly looks out for new products to update its product portfolio so as to provide comprehensive solutions to meet its customers' evolving needs. On pages 15 to 19 of the annual report, shareholders can get an overview of the products carried by the group. **Can management briefly explain the process of acquiring new products? Would it be driven by the group's research/understanding of the market, customers' needs and/or suppliers' new solutions?**
- (vi) **In the Maintenance and Leasing Business, did the group have the opportunity to extend the lease-and-maintenance contract with the Housing & Development Board? What are the other opportunities in this segment?**
- (vii) **Also, what are the reasons for the non-renewal of a maintenance contract with a customer in Indochina? What is the average retention rate of the group's maintenance customers?**

Company's Response

In the past few years, the Group's revenue has been affected by instability caused by the political situation in several countries in the Asia Pacific region. With these uncertainties, the Group's operating environment was made more challenging and this has caused a decline in revenue since FY2016. However, as the situation in these countries started to show signs of improving, the COVID-19 pandemic hit in 2020 and caused further disruptions as explained in the Annual Report 2021.

Whilst the Group understands that regular disclosure of its order book is beneficial to a better understanding of the Group's business performance, such a disclosure is constrained by the non-disclosure requirements of government agencies due to the sensitive nature of Homeland Security procurement in particular. Hence a disclosure of the remaining order book will not be meaningful. Similarly, for the same reason, the Group is also unable to share its customer breakdown.

The Group believes that its security product portfolio represents best-in-class products which can be integrated as tailored security solutions for its customers. The Group has experienced technical sales and after-sales support teams as well as a network of country-specific dealers to recommend and propose security solutions to customers but given the nature of such products and solutions, the sales cycle can be relatively long.

In order to keep abreast of new technologies, product developments, market trends and customer requirements and preferences, the Group maintains close business relationships with its local and overseas customers and suppliers through frequent visits and regular follow-ups. The Group also undertakes sales promotion, advertising, on-site product demonstrations and attends

meetings, exhibitions and trade fairs to promote its security products and integrated security solutions.

With regards to its Maintenance and Leasing business, the Group believes that lease-and-maintenance contracts are aligned with the long-term plans for customers like the Housing & Development Board. The Group's retention rate for its maintenance customers is very high, since a majority of the maintenance contracts are tied to the useful life-span of the security solution that the Group had installed for them. These contracts are typically not renewed at the end of the useful life-span of such security solution as a replacement or upgrade becomes due, which was the case of the non-renewal of a maintenance contract for a customer in IndoChina, for example.

Question 2

From a profit position of \$1.39 million in FY2016, the company slipped into an accumulated loss position since FY2017.

The group's profit/(loss) in the past 6 years and the remuneration of the executive director is shown in the table below:

	Remuneration band of executive director	Bonus (as a percentage of remuneration)	Directors' remuneration of the company (Note 18: Profit/(Loss) before tax)	Consolidated profit/(loss)
FY2016	Above S\$500,000	36%	\$605,026	\$2,265,000
FY2017	Above S\$250,000	0%	\$447,125	\$(2,500,000)
FY2018	and below	0%	\$446,599	\$(1,291,000)
FY2019	S\$500,000	0%	\$446,554	\$(1,212,000)
FY2020	Above S\$500,000 and below \$750,000	29%	\$634,380	\$2,037,000
FY2021	Above S\$250,000 and below S\$500,000	0%	\$446,490	\$95,000
Total			\$3,026,174	\$(606,000)

(Source: company annual reports)

The total losses for the past 6 years add up to \$(606,000). During this time, the executive director received total remuneration of \$3.03 million, with an estimated \$346,000 in bonus. Details of the service agreement can be found on page 39 of the annual report and the salient terms are reproduced below:

NPBT

NPBT above S\$400,000 and up to S\$800,000
NPBT more than S\$800,000

Performance Bonus

5.0% of the NPBT
10.0% of the NPBT

The remuneration package, including the Performance Bonus of the Executive Director and Group CEO, Kelvin Lim Ching Song, shall be subject to review by the RC.

(Source: company annual reports)

It was disclosed on page 39 that the service agreement with Mr Kelvin Lim Ching Song was renewed for another 3 years on 28 May 2020.

- (i) **Can the remuneration committee (“RC”) confirm that it had reviewed and approved the remuneration package of the executive director?**
- (ii) **If so, what was the review and approval process by the RC? Did it involve any benchmarking (in terms of market capitalisation, earnings etc) of similar companies listed on the SGX?**
- (iii) **In particular, how did the RC ensure that the level and structure of remuneration of the executive director are appropriate and proportionate to the sustained performance and value creation of the company (Principle 7 of the Code of Corporate Governance 2018)?** As observed from the table above, the group reported a cumulative loss of \$(606,000) while the ED received remuneration of \$3.03 million (including estimated bonuses amounting to \$346,000).
- (iv) **Can the RC elaborate further on the alignment of interests of the ED with those of shareholders based on the current remuneration framework? How strong is the link between rewards and corporate/individual performance?**
- (v) **Would the RC consider adopting a performance bonus system where bonuses are only paid out after profits exceed past accumulated losses?** That would encourage the right management behaviour and reward management for sustained performance and continued value creation.

Company’s Response

As stated on Page 39 of the Annual Report 2021, the remuneration for the Executive Director and key management personnel comprises a fixed and variable component. The variable component is performance related and is linked to the Group’s performance as well as the performance of each individual Executive Director and key management personnel, with a view to align the interests of the Executive Director and the key management personnel with those of Shareholders.

In structuring and reviewing the remuneration packages, the RC seeks to align the interests of Directors and key management personnel with those of Shareholders by linking rewards to corporate and individual performance, as well as to commensurate with the roles and responsibilities of each of them. The RC reviews and approves the remuneration received by the Executive Director and Group CEO against the financial performance of the Group. The Executive Director and Group CEO reviews and approves the remuneration of key management personnel against the staff remuneration guidelines to ensure that their remuneration packages are in line and commensurate with their respective job scope and responsibilities.

As stated on Page 40 of the Annual Report 2021, the remuneration received by the Executive Director and Group CEO, Mr Kelvin Lim Ching Song, was within the S\$250,000 to S\$500,000 band and no performance bonus was paid to him for FY2021 in light of the challenging business environment in FY2021. As the RC was satisfied that the performance conditions for the Executive Director and Group CEO for FY2021 were met, the RC approved the renewal of the Group’s service agreement with Mr Lim on 28 May 2020 for another three years, without any changes to the terms of his Agreement. Mr Lim’s last salary adjustment was on 1 July 2016.

Question 3

The company is cognizant that it has deviated from Provision 2.2 of the Code of Corporate Governance 2018 which requires independent directors to make up a majority of the board where the chairman is not independent.

As disclosed on page 34, to mitigate the deviation of Provision 2.2, the non-executive chairman, Mr Chan Tien Lok, has relinquished his casting vote in respect of all board resolutions from 1 July 2019.

Currently, the four-member board comprises one non-executive director (as chairman), one executive director and two independent directors.

- (i) **Has the board/nominating committee deliberated on the appointment of a third independent director?**
- (ii) **In particular, is the current board size of four optimal for the company at this stage of its growth? On what basis did the board/NC determine the optimal size of the board?**
- (iii) With just three non-executive directors receiving director's fees, the total amount of payment to directors as fees was \$205,216 in FY2021. **Please provide a breakdown of the fees paid to each of the non-executive directors (Provision 8.1 of the Code of Corporate Governance 2018).**
- (iv) **In particular, can the NC help shareholders understand if the two independent directors have the appropriate balance and mix of skills, knowledge, experience, especially in the security, law enforcement, surveillance industries etc, to engage in effective and constructive debate with the executive director and non-executive director (who is also the founder of the group)?**

Company's Response

As stated on Page 35 of the Annual Report 2021, the Board comprises Directors who as a group provides core competencies and diversity of experience to enable them to lead and control the Group effectively. Such competencies and experiences include industry knowledge, strategic planning, business and general management, legal and finance.

The Nominating Committee ("NC") of the Board considers the Company's Non-Executive Director and Independent Directors to be of sufficient calibre and size and their views to be of sufficient weight such that no individual or small group of individuals dominates the Board's decision-making process. The NC continually reviews the composition of the Board, taking into account the balance and diversity of skills, experience and gender, among other factors. The NC has also reviewed the size and composition of the Board and is satisfied that after taking into account the nature and scope of the Group's operations, the current Board size is appropriate and effective.

In view of confidentiality of the remuneration policies of the Company, the Board is of the opinion that it is in the best interests of the Group to disclose the remuneration of its Directors and key management personnel in salary bands. For FY2021, the total amount of payment to directors as fees subject to shareholder approval is \$205,216. There has been no increase to the Directors' fees from the previous financial year ended 30 June 2020.