



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

Unaudited Second Quarter And Six-Month Financial Statements And Dividend Announcement For The Financial Period Ended 31 December 2019

This announcement has been prepared by IPS Securex Holdings Limited (the “Company” and, together with its subsidiaries, the “Group”) and its contents have been reviewed by the Company’s sponsor, United Overseas Bank Limited (the “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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PART I - INFORMATION REQUIRED FOR QUARTERLY (Q1, Q2 AND Q3), HALF-YEAR AND FULL YEAR ANNOUNCEMENTS

- 1(a) An income statement and statement of comprehensive income, or a statement of comprehensive income, for the group, together with a comparative statement for the corresponding period of the immediately preceding financial year.

	Group Unaudited					
	2Q-2020 ⁽¹⁾ S\$	2Q-2019 ⁽²⁾ S\$	Increase/ (Decrease) % change	1H-2020 ⁽³⁾ S\$	1H-2019 ⁽⁴⁾ S\$	Increase/ (Decrease) % change
Revenue	5,667,031	2,531,996	123.8	8,819,376	4,675,952	88.6
Cost of sales	(3,576,968)	(1,156,974)	209.2	(5,190,018)	(2,289,238)	126.7
Gross profit	2,090,063	1,375,022	52.0	3,629,358	2,386,714	52.1
Other income	11,241	26,783	(58.0)	29,028	21,414	35.6
Administrative expenses	(1,333,395)	(1,369,353)	(2.6)	(2,679,131)	(2,709,383)	(1.1)
Other operating expenses	(123,990)	(2,329)	5,223.7	(156,241)	(14,343)	989.3
Finance income	53,723	7,005	666.9	54,880	18,839	191.3
Finance costs	(14,847)	(13,571)	9.4	(46,364)	(13,945)	232.5
Profit/(Loss) before tax	682,795	23,557	2,798.5	831,530	(310,704)	NM
Tax expense	(63,220)	(39,539)	59.9	(63,220)	(9,939)	536.1
Profit/(Loss) for the period, representing total comprehensive income/(loss) for the period	619,575	(15,982)	NM	768,310	(320,643)	NM

NM denotes not meaningful.

Notes:

- ⁽¹⁾ “2Q-2020” refers to the second quarter ended 31 December 2019.
⁽²⁾ “2Q-2019” refers to the second quarter ended 31 December 2018.
⁽³⁾ “1H-2020” refers to the half year ended 31 December 2019.
⁽⁴⁾ “1H-2019” refers to the half year ended 31 December 2018.

The profit/(loss) for the period attributable to shareholders of the Company includes the following (charges)/credits:

	Group Unaudited					
	2Q-2020 S\$	2Q-2019 S\$	Increase/ (Decrease) % change	1H-2020 S\$	1H-2019 S\$	Increase/ (Decrease) % change
After charging:						
Depreciation of plant and equipment	(207,969)	(265,328)	(21.6)	(429,943)	(530,313)	(18.9)
Plant and equipment written off	-	(480)	NM	-	(480)	NM
Inventories written off	(12,719)	(7)	181,600.0	(13,482)	(10)	134,720.0
Rental expense	(56,028)	(55,998)	0.1	(111,792)	(111,596)	0.2
Allowance for doubtful debts (net)	(102,132)	-	NM	(125,195)	(7,158)	1,649.0
Allowance for inventories obsolescence	(6,624)	-	NM	(9,572)	-	NM
Interest expense	(14,847)	(5,632)	163.6	(46,364)	(13,945)	232.5
Foreign exchange loss (net)	-	(7,939)	NM	-	-	NM
Finance costs	(14,847)	(13,571)	9.4	(46,364)	(13,945)	232.5
and crediting:						
Miscellaneous income	5,570	-	NM	12,184	1,742	599.4
Bad debts recovered	-	10,302	NM	10,165	-	NM
Government grant and subsidies	5,671	16,481	(65.6)	6,679	19,672	(66.0)
Other income	11,241	26,783	(58.0)	29,028	21,414	35.6
Foreign exchange gain (net)	51,067	-	NM	51,327	4,925	942.2
Interest income	2,656	7,005	(62.1)	3,553	13,914	(74.5)
Finance income	53,723	7,005	666.9	54,880	18,839	191.3

NM denotes not meaningful.

1(b)(i) A statement of financial position (for the issuer and group), together with a comparative statement as at the end of the immediately preceding financial year.

	Group		Company	
	Unaudited As at 31.12.2019 S\$	Audited As at 30.06.2019 S\$	Unaudited As at 31.12.2019 S\$	Audited As at 30.06.2019 S\$
ASSETS				
Current assets				
Cash and cash equivalents	4,547,606	3,869,130	218,733	122,106
Trade and other receivables	3,964,650	2,692,855	2,340,032	2,748,849
Loans to subsidiary corporation	-	-	1,385,427	1,545,000
Inventories	5,046,433	2,201,764	-	-
Contract costs	823,231	289,739	-	-
Contract assets	255,900	219,775	-	-
Total current assets	14,637,820	9,273,263	3,944,192	4,415,955
Non-current assets				
Investment in subsidiary corporations	-	-	5,344,199	4,844,199
Plant and equipment	1,772,965	2,184,685	-	-
Other investments	7,605	7,605	-	-
	1,780,570	2,192,290	5,344,199	4,844,199
Total assets	16,418,390	11,465,553	9,288,391	9,260,154
LIABILITIES AND EQUITY				
Current liabilities				
Trade and other payables	5,962,646	2,448,366	408,373	255,252
Contract liabilities	3,009,587	2,393,484	-	-
Finance lease liabilities	18,151	18,151	-	-
Total current liabilities	8,990,384	4,860,001	408,373	255,252
Non-current liabilities				
Finance lease liabilities	43,582	52,658	-	-
Deferred tax liabilities	69,094	5,874	-	-
	112,676	58,532	-	-
Capital and reserves				
Share capital	9,405,906	9,405,906	9,405,906	9,405,906
Treasury shares	(89,353)	(89,353)	(89,353)	(89,353)
Capital reserves	(589,999)	(589,999)	210,000	210,000
Accumulated losses	(1,411,224)	(2,179,534)	(646,535)	(521,651)
	7,315,330	6,547,020	8,880,018	9,004,902
Total liabilities and equity	16,418,390	11,465,553	9,288,391	9,260,154

1(b)(ii) In relation to the aggregate amount of the group's borrowings and debt securities, specify the following as at the end of the current financial period reported on with comparative figures as at the end of the immediately preceding financial year:

	As at 31.12.2019		As at 30.06.2019	
	Secured S\$	Unsecured S\$	Secured S\$	Unsecured S\$
Group				
Amount repayable in one year or less, or on demand	18,151	-	18,151	-
Amount repayable after one year	43,582	-	52,658	-
	<u>61,733</u>	<u>-</u>	<u>70,809</u>	<u>-</u>

Details of the collaterals:

The Group's finance lease is secured by the plant and equipment purchased under the lease.

1(c) A cash flow statement (for the group), together with a comparative statement for the corresponding period of the immediately preceding financial year.

	Group Unaudited			
	2Q-2020	2Q-2019	1H-2020	1H-2019
	S\$	S\$	S\$	S\$
Operating activities				
Profit/(Loss) before tax	682,795	23,557	831,530	(310,704)
Adjustments for:				
Interest income	(2,656)	(7,005)	(3,553)	(13,914)
Interest expense	14,847	5,632	46,364	13,945
Depreciation of plant and equipment	207,969	265,328	429,943	530,313
Plant and equipment written off	-	480	-	480
Inventories written off	12,719	7	13,482	10
Allowance for inventories obsolescence	6,624	-	9,572	-
Allowance for doubtful debts (net)	102,132	(10,302)	125,195	7,158
Net foreign exchange loss	32,924	10,784	2,174	8,448
Operating cash flows before working capital changes	1,057,354	288,481	1,454,707	235,736
Trade and other receivables	(1,455,647)	(118,355)	(1,402,441)	480,157
Inventories	802,435	(311,657)	(2,867,723)	(162,888)
Contract costs	(58,559)	(26,331)	(533,492)	(19,271)
Contract assets	(41,627)	(9,218)	(36,125)	(12,527)
Trade and other payables	1,241,059	(215,318)	829,872	(675,849)
Contract liabilities	782,798	91,582	616,103	157,916
Cash generated from/(used in) operations	2,327,813	(300,816)	(1,939,099)	3,274
Interest received	2,376	5,850	3,063	11,617
Net cash from/(used in) operating activities	2,330,189	(294,966)	(1,936,036)	14,891
Investing activities				
Purchase of plant and equipment	(12,921)	(21,271)	(18,223)	(36,556)
Net cash used in investing activities	(12,921)	(21,271)	(18,223)	(36,556)
Financing activities				
Interest paid	(6,575)	(6,349)	(10,635)	(14,527)
Repayments of bank borrowings	-	(155,540)	-	(277,355)
Repayments of finance leases	(4,538)	(4,538)	(9,076)	(9,076)
Restricted cash released	-	27,587	740,831	27,587
(Decrease)/Increase in trade financing facilities	(1,208,055)	-	2,660,173	-
Net cash (used in)/from financing activities	(1,219,168)	(138,840)	3,381,293	(273,371)
Net decrease in cash and cash equivalents	1,098,100	(455,077)	1,427,034	(295,036)
Effect of exchange rate changes on the balance of cash held in foreign currencies	(42,833)	(1,749)	(7,727)	604
Cash and cash equivalents at beginning of the period	2,734,339	3,699,673	2,370,299	3,537,279
Cash and cash equivalents at end of the period	3,789,606	3,242,847	3,789,606	3,242,847
Cash and cash equivalents in the Group's cash flow statements comprise the following:				
Cash at bank and on hand	3,789,606	3,242,847	3,789,606	3,242,847
Restricted cash and fixed deposit pledged	758,000	18,000	758,000	18,000
Cash and cash equivalents in the statement of financial position at end of the period	4,547,606	3,260,847	4,547,606	3,260,847

1(d)(i) A statement (for the issuer and the group) showing either (i) all changes in equity or (ii) changes in equity other than those arising from capitalisation issues and distributions to shareholders, together with a comparative statement for the corresponding period of the immediately preceding financial year.

Statement of changes in equity

S\$	Share capital	Treasury shares	Capital reserves	Accumulated profit/(losses)	Total
Group					
Balance at 1 July 2019	9,405,906	(89,353)	(589,999)	(2,179,534)	6,547,020
Total comprehensive income for the period					
Profit for the period, representing total comprehensive income for the period	-	-	-	768,310	768,310
Balance at 31 December 2019	9,405,906	(89,353)	(589,999)	(1,411,224)	7,315,330
Balance at 1 July 2018	9,405,906	(89,353)	(589,999)	(967,970)	7,758,584
Total comprehensive loss for the period					
Loss for the period, representing total comprehensive loss for the period	-	-	-	(320,643)	(320,643)
Balance at 31 December 2018	9,405,906	(89,353)	(589,999)	(1,288,613)	7,437,941
Company					
Balance at 1 July 2019	9,405,906	(89,353)	210,000	(521,651)	9,004,902
Total comprehensive loss for the period					
Loss for the period, representing total comprehensive loss for the period	-	-	-	(124,884)	(124,884)
Balance at 31 December 2019	9,405,906	(89,353)	210,000	(646,535)	8,880,018
Balance at 1 July 2018	9,405,906	(89,353)	210,000	(344,328)	9,182,225
Total comprehensive loss for the period					
Loss for the period, representing total comprehensive loss for the period	-	-	-	(101,110)	(101,110)
Balance at 31 December 2018	9,405,906	(89,353)	210,000	(445,438)	9,081,115

- 1(d)(ii) Details of any changes in the company's share capital arising from rights issue, bonus issue, share buy-backs, exercise of share options or warrants, conversion of other issues of equity securities, issue of shares for cash or as consideration for acquisition or for any other purpose since the end of the previous period reported on. State the number of shares that may be issued on conversion of all the outstanding convertibles, if any, against the total number of issued shares excluding treasury shares and subsidiary holdings of the issuer, as at the end of the current financial period reported on and as at the end of the corresponding period of the immediately preceding financial year. State also the number of shares held as treasury shares and the number of subsidiary holdings, if any, and the percentage of the aggregate number of treasury shares and subsidiary holdings held against the total number of shares outstanding in a class that is listed as at the end of the current financial period reported on and as at the end of the corresponding period of the immediately preceding financial year.**

There were no outstanding convertibles and subsidiary holdings held by the Company as at 31 December 2019 and 31 December 2018. The number of shares held as treasury shares as at 31 December 2019 and 31 December 2018 is 1,155,900 treasury shares. The percentage of the aggregate number of treasury shares held against the total number of shares outstanding that is listed as at 31 December 2019 and 31 December 2018 is 0.24%.

- 1(d)(iii) To show the total number of issued shares excluding treasury shares as at the end of the current financial period and as at the end of the immediately preceding year.**

	As at	
	31.12.2019	30.06.2019
Total number of issued shares excluding treasury shares and subsidiary holdings	484,844,100	484,844,100

- 1(d)(iv) A statement showing all sales, transfers, cancellation and/or use of treasury shares as at the end of the current financial period reported on.**

Not applicable.

- 1(d)(v) A statement showing all sales, transfers, cancellation and/or use of subsidiary holdings as at the end of the current financial period reported on.**

Not applicable.

- 2. Whether the figures have been audited, or reviewed and in accordance with which auditing standard or practice.**

The figures have not been audited or reviewed by the auditors of the Company.

- 3. Where the figures have been audited or reviewed, the auditors' report (including any qualifications or emphasis of a matter).**

Not applicable.

- 4. Whether the same accounting policies and methods of computation as in the issuer's most recently audited annual financial statements have been applied.**

The Group has applied the same accounting policies and methods of computation in the financial statements for 1H-2020 as that of the audited financial statements for the year ended 30 June 2019, except for the following new SFRS(I)s, amendments and interpretations of SFRS(I)s which took effect from financial year beginning 1 January 2019:

- SFRS(I) 16 Leases
 - SFRS(I) INT 23 Uncertainty over Income Tax Treatments
 - Amendments to SFRS(I) 3 and SFRS(I) 11 Previously Held Interest in a Joint Operation
 - Amendments to SFRS(I) 9 Prepayment Features with Negative Compensation
 - Amendments to SFRS(I) 1-12 Income Tax Consequences of Payments on Financial Instruments Classified as Equity
 - Amendments to SFRS(I) 1-19 Plan Amendment, Curtailment or Settlement
 - Amendments to SFRS(I) 1-23 Borrowing Costs Eligible for Capitalisation
 - Amendments to SFRS(I) 1-28 Long-Term Interests in Associates and Joint Ventures
- The adoption of these SFRS(I)s, amendments and interpretations of SFRS(I)s did not have any significant impact on the financial statements of the Group.

Application of SFRS(I) 16

SFRS(I) 16 introduces a single, on-balance sheet lease accounting model for lessees. A lessee recognises a right-of-use (“ROU”) asset representing its right to use the underlying asset and a lease liability representing its obligation to make lease payments. There are recognition exemptions for short-term leases and leases of low-value items. Lessor accounting remains similar to the current standard – i.e. lessors continue to classify leases as finance or operating leases. SFRS(I) 16 replaces existing lease accounting guidance, including SFRS(I) 1-17 *Leases*, SFRS(I) INT 4 *Determining whether an Arrangement contains a Lease*, SFRS(I) INT 1-15 *Operating Leases – Incentives* and SFRS(I) INT 1-27 *Evaluating the Substance of Transactions Involving the Legal Form of a Lease*.

The Group has adopted SFRS(I) 16 initially on 1 July 2019, using the modified retrospective approach, with no restatement of comparative information.

The Group as lessee

The Group has entered into the lease agreement for rental of office, other equipment and foreign workers’ accommodation.

The lease rental of office and all other lease agreement were signed for a period of 12 months with no renewal options. Applying the exemption for short-term leases, there are no right-of-use assets and lease liabilities being accounted. The lease rental expense will be charged out to the income statement as incurred.

The Group as lessor

SFRS(I) 16 substantially carries forward the current existing lessor accounting requirements. Accordingly, the Group continues to classify its leases as operating leases, and to account for this type of lease using the existing operating lease accounting model.

Based on the information currently available, no significant impact on the financial statements is expected for the Group’s activity as a lessor.

5. **If there are any changes in the accounting policies and methods of computation, including any required by an accounting standard, what has changed, as well as the reasons for, and the effect of, the change.**

Please refer to item 4 above.

6. Earnings per ordinary share of the group for the current financial period reported on and the corresponding period of the immediately preceding financial year, after deducting any provision for preference dividends.

	Group Unaudited			
	2Q-2020	2Q-2019	1H-2020	1H-2019
Earnings per ordinary share ("EPS")				
Profit/(Loss) attributable to owners of the Company (S\$)	619,575	(15,982)	768,310	(320,643)
Weighted average number of ordinary shares	<u>484,844,100</u>	<u>484,844,100</u>	<u>484,844,100</u>	<u>484,844,100</u>
EPS - Basic and diluted (cents) ⁽¹⁾	<u>0.13</u>	<u>(0.00)</u>	<u>0.16</u>	<u>(0.07)</u>

Notes:

⁽¹⁾ The basic and diluted earnings per share were the same as there were no dilutive instruments as at 31 December 2018 and 31 December 2019.

7. Net asset value (for the issuer and group) per ordinary share based on the total number of issued shares excluding treasury shares of the issuer at the end of the:-

- (a) current financial period reported on; and
(b) immediately preceding financial year**

	Group		Company	
	Unaudited As at 31.12.2019	Audited As at 30.06.2019	Unaudited As at 31.12.2019	Audited As at 30.06.2019
Net asset value per ordinary share based on the number of shares in issue at end of period/year (cents)	<u>1.5</u>	<u>1.4</u>	<u>1.8</u>	<u>1.9</u>

8. **A review of the performance of the group, to the extent necessary for a reasonable understanding of the group's business. It must include a discussion of the following:-**
- a) **any significant factors that affected the turnover, costs, and earnings of the group for the current financial period reported on, including (where applicable) seasonal or cyclical factors; and**
 - b) **any material factors that affected the cash flow, working capital, assets or liabilities of the group during the current financial period reported on.**

Review of the Group's performance

The Group has two major business segments, namely (i) Security Solutions Business; and (ii) Maintenance and Leasing Business.

Revenue

The Group's revenue increased by approximately S\$3.1 million or 123.8% from S\$2.5 million in 2Q-2019 to S\$5.7 million in 2Q-2020; and increased by approximately S\$4.1 million or 88.6% from S\$4.7 million in 1H-2019 to S\$8.8 million in 1H-2020.

Revenue from the Security Solutions Business increased by approximately S\$3.7 million or 707.5% from S\$523,000 in 2Q-2019 to S\$4.3 million in 2Q-2020. This was mainly attributable to (i) an increase in revenue from the sale of security products to customers in Singapore of S\$311,000, in Indochina⁽¹⁾ of S\$124,000, and in East Asia⁽²⁾ of S\$166,000; and (ii) an increase in revenue from providing integrated security solutions in Singapore of S\$1.5 million, and in the Rest of Southeast Asia⁽³⁾ of S\$1.6 million.

Revenue from the Security Solutions Business increased by approximately S\$4.8 million or 400.0% from S\$1.2 million in 1H-2019 to S\$6.0 million in 1H-2020. This was mainly attributable to (i) an increase in revenue from the sale of security products to customers in Singapore of S\$399,000, in the Rest of Southeast Asia⁽³⁾ of S\$152,000, in Indochina⁽¹⁾ of S\$65,000, and in East Asia⁽²⁾ of S\$251,000; and (ii) an increase in revenue from providing integrated security solutions in Singapore of S\$2.3 million, and the Rest of Southeast Asia⁽³⁾ of S\$1.6 million.

Revenue from the Maintenance and Leasing Business decreased by approximately S\$609,000 or 30.5% from S\$2.0 million in 2Q-2019 to S\$1.4 million in 2Q-2020. This was mainly attributable to the absence of revenue in 2Q-2020 from (i) the ad-hoc replacement of a component in a security system for a customer in Singapore of S\$380,000; and (ii) the provision of maintenance support services to customers in the Rest of Southeast Asia⁽³⁾ of S\$168,000 and in Indochina⁽¹⁾ of S\$38,000. The absence of revenue from provision of maintenance support services was due to a delay in commencement of a maintenance contract by one of our customers in the Rest of Southeast Asia⁽³⁾ and the non-renewal of maintenance contract with a customer in Indochina⁽¹⁾. In addition, there was a decrease in revenue from the provision of maintenance support services to customers in Singapore of S\$23,000.

Revenue from the Maintenance and Leasing Business decreased by approximately S\$619,000 or 17.7% from S\$3.5 million in 1H-2019 to S\$2.8 million in 1H-2020. For reasons similar to those stated above, this was mainly attributable to the absence of revenue in 1H-2020 from (i) the ad-hoc replacement of a component in a security system for a customer in Singapore of S\$380,000; and (ii) the provision of maintenance support services to customers in the Rest of Southeast Asia⁽³⁾ of S\$311,000 and in Indochina⁽¹⁾ of S\$55,000. This was partially offset by an increase in revenue from the provision of maintenance support services to customers in Singapore of S\$127,000.

Cost of sales

Cost of sales increased by approximately S\$2.4 million or 209.2% from S\$1.2 million in 2Q-2019 to S\$3.6 million in 2Q-2020 and increased by approximately S\$2.9 million or 126.7% from S\$2.3 million in 1H-2019 to S\$5.2 million in 1H-2020. This was mainly due to the net increase in direct material costs incurred in line with the increase in revenue and a higher proportion of integrated security solutions undertaken by the Group which had a higher cost base relative to revenue.

Gross profit

Gross profit increased by approximately S\$715,000 or 52.0% from S\$1.4 million in 2Q-2019 to S\$2.1 million in 2Q-2020 and increased by S\$1.2 million or 52.1% from S\$2.4 million in 1H-2019 to S\$3.6 million in 1H-2020 as a result of the factors discussed above.

Notes:

(1) "Indochina" includes Myanmar, Thailand, Laos, Cambodia and Vietnam.

(2) "East Asia" includes China, Hong Kong and South Korea.

(3) "Rest of Southeast Asia" includes Malaysia, Brunei, Indonesia, Philippines and Timor Leste

Other income

Other income decreased by approximately S\$16,000 or 58.0% from S\$27,000 in 2Q-2019 to S\$11,000 in 2Q-2020. This was mainly due to the decrease in government grants and subsidies of S\$11,000, an absence of bad debts recovered of S\$10,000 which was recognised in 2Q-2019, and partially offset by an increase in miscellaneous income of S\$5,000.

Other income increased by approximately S\$8,000 or 35.6% from S\$21,000 in 1H-2019 to S\$29,000 in 1H-2020. The increase was due to an amount of S\$6,000 sponsorship received from a business partner for a marketing and seminar event, an increase in bad debts recovered of S\$10,000 and an increase in insurance payout from staff related injuries of \$5,000. This was partially offset by a decrease in government grants and subsidies of S\$13,000.

Administrative expenses

Administrative expenses decreased by approximately S\$36,000 or 2.6% from S\$1.4 million in 2Q-2019 to S\$1.3 million in 2Q-2020. This was mainly due to the decrease in distribution and marketing expenses of S\$24,000 and office related expenses of S\$12,000.

Administrative expenses remained relatively stable at S\$2.7 million in both 1H-2019 and 1H-2020.

Other operating expenses

Other operating expenses increased by approximately S\$122,000 or 5223.7% from S\$2,000 in 2Q-2019 to S\$124,000 in 2Q-2020. This was mainly due to an increase in allowance for doubtful debts of S\$102,000 to provide for overdue outstanding balances from certain customers in Singapore, an increase in allowance for inventories obsolescence of S\$7,000, and inventories written off of S\$13,000.

Other operating expenses increased by approximately S\$142,000 or 989.3% from S\$14,000 in 1H-2019 to S\$156,000 in 1H-2020. This was mainly due to an increase in allowance for doubtful debts of S\$118,000 to provide for overdue outstanding balances from certain customers in Singapore, an increase in allowance for inventories obsolescence of S\$9,000, inventories written off of S\$13,000 and bank charges of S\$2,000.

Finance income

Finance income increased by approximately S\$47,000 or 666.9% from S\$7,000 in 2Q-2019 to S\$54,000 in 2Q-2020. This was mainly due to an increase in net foreign exchange gain of S\$51,000 arising from the settlement of trade payables denominated in United States dollar attributable to the depreciation of the United States dollar which occurred in 2Q-2020 against the Singapore dollar and partially offset by a decrease in interest earned from bank of S\$3,000 and the absence in 2Q-2020 of the difference between the carrying value and fair value of certain trade receivables attributable to an instalment repayment plan agreed with a customer of S\$1,000.

Finance income increased by approximately S\$36,000 or 191.3% from S\$19,000 in 1H-2019 to S\$55,000 in 1H-2020. This was mainly due to an increase in net foreign exchange gain of S\$46,000 arising from the settlement of trade payables denominated in United States dollar attributable to the depreciation of the United States dollar which occurred in 1H-2020 against the Singapore dollar and partially offset by a decrease in interest earned from bank of S\$8,000 and the absence in 1H-2020 of the difference between the carrying value and fair value of certain trade receivables attributable to an instalment repayment plan agreed with a customer of S\$2,000.

Finance costs

Finance costs increased by approximately S\$1,000 or 9.4% from S\$14,000 in 2Q-2019 to S\$15,000 in 2Q-2020. This was mainly due to higher utilisation of trade financing facilities of S\$10,000 and partially offset by

the repayment of the term loan in April 2019 by the Group to fund the acquisition of Yatai Security & Communications Pte. Ltd. and AVAC Systems Pte Ltd of S\$1,000 and the absence in 2Q-2020 of foreign exchange loss of S\$8,000 attributable to the weakening of the United States dollar in which the Group's sales were denominated in against the Singapore dollar that was recognised in 2Q-2019.

Finance costs increased by approximately S\$32,000 or 232.5% from S\$14,000 in 1H-2019 to S\$46,000 in 1H-2020. This was mainly due to higher utilisation of trade financing facilities of S\$36,000 and partially offset by the repayment of the term loan in April 2019 by the Group to fund the acquisition of Yatai Security & Communications Pte. Ltd. and AVAC Systems Pte Ltd of S\$4,000.

Tax expense

Tax expense increased by approximately S\$24,000 or 59.9% from S\$40,000 in 2Q-2019 to S\$63,000 in 2Q-2020 and increased by approximately S\$53,000 or 536.1% from S\$10,000 in 1H-2019 to S\$63,000 in 1H-2020. The increase in tax expense was due to significant increase in profit before tax recorded in 2Q-2020. The Group recorded a profit before tax in 1H-2020 whereas a loss before tax was incurred in 1H-2019.

Review of the Group's financial position

Current assets

Current assets increased by approximately S\$5.4 million from S\$9.3 million as at 30 June 2019 to S\$14.6 million as at 31 December 2019. The increase in current assets was mainly due to:-

- (a) an increase in cash and cash equivalents of S\$678,000;
- (b) the net increase in trade and other receivables of S\$1.3 million mainly due to higher sales made on credit terms from the integrated solutions business towards the end of 1H-2020 of approximately S\$1.7 million, an increase in insurance and prepayment of sponsor fees of S\$65,000 and partially offset by a decrease in deposits placed with suppliers for purchases of security products of S\$236,000, a decrease in prepayment for maintenance support service of S\$118,000 and recognition of allowance for doubtful debts of S\$125,000;
- (c) an increase in contract costs of S\$533,000 mainly attributable to an increase in costs incurred to fulfil the Group's obligations under a contracts where it had yet to transfer the goods and services to its customers;
- (d) an increase in inventories of S\$2.8 million arising from an increase in the purchase of parts and components; and
- (e) an increase in contract assets of S\$36,000 mainly attributable to the increase in amount due from contract customers for projects completed but where billings have yet to be raised as at 31 December 2019.

Non-current assets

Non-current assets decreased by approximately S\$412,000 from S\$2.2 million as at 30 June 2019 to S\$1.8 million as at 31 December 2019. The decrease in non-current assets was due mainly to the net decrease in plant and equipment of S\$412,000 primarily attributable to depreciation charges.

Current liabilities

Current liabilities increased by approximately S\$4.1 million from S\$4.9 million as at 30 June 2019 to S\$9.0 million as at 31 December 2019. The increase in current liabilities was mainly due to:-

- (a) an increase in trade and other payables of S\$3.5 million mainly attributable to an increase in trade financing facilities of S\$2.7 million, an increase in accruals of operating expenses of S\$509,000 and an increase in amounts owing to suppliers of S\$320,000; and

- (b) an increase in contract liabilities of S\$616,000 mainly due to advanced consideration received from customers in Singapore in relation to the provision of integrated security solutions of S\$616,000.

Non-current liabilities

Non-current liabilities increased by approximately S\$54,000 from S\$59,000 as at 30 June 2019 to S\$113,000 as at 31 December 2019. This was due to an increase in deferred tax liabilities of S\$63,000 and partially offset by the repayment of finance lease of S\$9,000.

Capital and reserves

Capital and reserves increased by approximately S\$768,000 from S\$6.5 million as at 30 June 2019 to S\$7.3 million as at 31 December 2019. This was mainly due to the net profit recognised in 1H-2020 of S\$768,000.

Review of the Group's cashflows

Net cash from operating activities

In 1H-2020, the net cash used in operating activities was approximately S\$1.9 million, which consisted of operating cashflow before working capital changes of S\$1.5 million, net working capital outflow of S\$3.4 million and interest received of S\$3,000.

The net working capital outflow arose mainly from the following:-

- (a) The net increase in trade and other receivables of S\$1.4 million, mainly due to higher sales made on credit terms from the integrated solutions business towards the end of 1H-2020 of approximately S\$1.7 million, an increase in insurance and prepayment of sponsor fees of \$65,000 and partially offset by a decrease in deposits placed with suppliers for purchases of security products of S\$236,000 and a decrease in prepayment for maintenance support service of S\$118,000;
- (b) an increase in inventories of S\$2.9 million arising from an increase in the purchase of parts and components;
- (c) an increase in contract costs of S\$533,000 mainly attributable to an increase in costs incurred to fulfil the Group's obligations under a contracts where it had yet to transfer the goods and services to its customers;
- (d) an increase in contract assets of S\$36,000 mainly attributable to the increase in amount due from contract customers for projects completed but where billings have yet to be raised as at 31 December 2019;
- (e) partially offset by an increase in trade and other payables of S\$830,000 mainly attributable to an increase in accruals of operating expenses of S\$509,000 and an increase in amounts owing to suppliers of S\$320,000; and
- (f) partially offset by an increase in contract liabilities of S\$616,000 mainly due to advanced consideration received from customers in Singapore in relation to the provision of integrated security solutions of S\$616,000.

Net cash used in investing activities

Net cash used in investing activities amounted to approximately S\$18,000 in 1H-2020 arising from the purchase of plant and equipment.

Net cash from financing activities

Net cash from financing activities amounted to approximately S\$3.4 million in 1H-2020 which was mainly due to the release of restricted cash of S\$741,000 that was previously maintained with a bank as collateral for a performance guarantee which was in relation to financing facilities obtained for the purpose of providing integrated security solutions for a government agency in Southeast Asia as announced by the Company on 15 January 2019 and an increase in trade financing facilities of S\$2.7 million. This was partially offset by a repayment of finance lease liabilities of S\$9,000 and interest paid of S\$11,000;

9. Where a forecast, or a prospect statement, has been previously disclosed to shareholders, any variance between it and the actual results.

Not applicable.

10. A commentary at the date of the announcement of the significant trends and competitive conditions of the industry in which the group operates and any known factors or events that may affect the group in the next reporting period and the next 12 months.

Terrorist organisations are resilient as the politico-economic risk factors that make extremist ideologies appealing and conflict zones that enable mobilisation still persist.¹

Apart from terrorism, the world continues to be plagued with conflicts, political unrest and rising turmoil, many lives remain in disarray and in unsafe environments. To deter such social and economic disruption and threats, governments globally have to remain vigilant and to continually ensure that their security procedures are kept at high standards and their equipment well-maintained.

As one of the region's leading providers of security products and integrated security solutions, it is important for the Group to provide excellent service quality and to remain engaged with its customers, so as to tailor the Group's solutions to the needs and concerns of its customers. As a testament to the Group's success in customer engagements, the Group has been awarded with a maintenance order and a variation agreement that was announced on 5 December 2019 and 9 January 2020, respectively.

With more projects surfacing within Singapore and the region, the Group will rigorously assess the available opportunities and participate accordingly. At the same time, the Group will continue with its ongoing process to research on and include the latest security products and solutions that are available and integrable in the market.

In view of the current 2019 novel coronavirus (2019-nCov) situation in Singapore, the Group has implemented its Business Continuity Plan to ensure that it is able to continue its operations.

11. Dividend

(a) Whether any interim (final) ordinary dividend has been declared (recommended)

No.

(b) Any dividend declared (recommended) for the corresponding period of the immediately preceding financial year?

No.

(c) Date payable

Not applicable.

¹ <https://www.todayonline.com/commentary/four-major-security-trends-will-impact-singapore-2020>

(d) Books closure date

Not applicable.

12. If no dividend has been declared (recommended), a statement to that effect and provide the reasons for the decision not to declare/recommend any dividend.

No dividend has been declared or recommended for 1H-2020 in light of the Group's accumulated losses of S\$1.4 million as at 31 December 2019.

13. If the group has obtained a general mandate from shareholders for IPTs, the aggregate value of such transactions as required under Rule 920(1)(a)(ii). If no IPT mandate has been obtained, a statement to that effect.

The Group does not have a general mandate from shareholders for interested person transactions ("IPT") pursuant to Rule 920(1)(a)(ii) of the Listing Manual Section B: Rules of Catalist of the SGX-ST ("Catalist Rules"). However, pursuant to Rule 905 of the Catalist Rules, the following is disclosed.

	Aggregate value of all interested person transactions during the period under review (excluding transactions less than S\$100,000 and transactions conducted under Shareholders' Mandate pursuant to Rule 920 of the Catalist Rules)			
<u>Provision of group services (such as human resources, administration support and rental expense) by:-</u>	2Q-2020 S\$	2Q-2019 S\$	1H-2020 S\$	1H-2019 S\$
IPS Realty Pte Ltd	54,000	54,000	108,000	108,000
IPS Group Pte. Ltd.	19,311	18,615	38,622	37,230

14. Confirmation by the Issuer pursuant to Rule 720(1)

The Company confirms that it has procured undertakings from all of its directors ("Directors") and executive officers as required under Rule 720(1) of the Catalist Rules.

15. Negative confirmation by the Board pursuant to Rule 705(5)

The board of Directors (the "Board") hereby confirms that, to the best of its knowledge, nothing has come to the attention of the Board, which may render the unaudited financial statements of the Group for 1H-2020 to be false or misleading in any material aspect.

By Order of the Board

Kelvin Lim Ching Song
Executive Director and Group Chief Executive Officer
11 February 2020