PROCURRI

PROCURRI CORPORATION LIMITED
(Company Registration No. 201306969W)
(Incorporated in the Republic of Singapore)

RESPONSES TO QUESTIONS FROM SECURITIES INVESTORS ASSOCIATION (SINGAPORE) ("SIAS") ON THE COMPANY'S FY2021 ANNUAL REPORT

The Board of Directors (the "**Board**") of Procurri Corporation Limited (the "**Company**" or "**Procurri**", and together with its subsidiaries, the "**Group**") refers to the annual report of the Company for the financial year ended 31 December 2021 ("**FY2021 Annual Report**"). The Board wishes to provide responses to the questions received from SIAS on the FY2021 Annual Report as follows.

Question 1

The group carried out an internal restructuring, reorganising into Maintenance; Hardware and Lifecycle Services ("HW"); and IT Asset Disposition ("ITAD"). As shown in the financial review (page 12), the hardware life cycle service and IT asset disposition accounted for 77.5% of the group's revenue.

i. **HW & ITAD: How well understood is the group's value proposition by its potential customers? With new products becoming increasingly energy efficient, would the group find itself constantly swimming against the current as corporations focus more on sustainability (energy efficiency)?**

Response:

The Group's value proposition is well understood by its customers and the marketplace. Our views are supported by:

- The commercial results of the HW & ITAD business, which has delivered significant growth globally as a market response to our solutions offerings;

- The quality of customers we have attracted to our solutions over the last few years, including leading global IT distributors, original equipment manufacturers, and contract manufacturers;

- The awards we have won from global organisations such as CRN, who have understood and commended our value proposition for the growing circular economy (Procurri won the 'Best Circular Economy Company" and "Sustainable Project of the Year" award at the 2021 CRN Tech Impact awards);

- The clear shift in the global macroeconomy and IT economy towards sustainable business.

We believe Procurri is an overall beneficiary of the global business shift towards sustainability, including the increasing energy efficiency of new IT products.

Energy efficiency is one of many factors driving overall IT sustainability. Globally, the IT industry generates over 50 million tonnes of electronic waste annually[1], in addition to consuming exhaustible resources (such as rare earth metals) and generating additional waste during the long manufacturing process for semiconductors and other electronic devices.

Procurri's solutions help to extend the operating lifetime of IT equipment, and to recover value and reduce waste at the end of operating life. Our solutions help to reduce e-waste significantly, through longer equipment life (reducing the need for replacement) and through responsible recycling of products back into the marketplace or into certified recycling programs.

The introduction of more energy efficient technologies creates commercial opportunities for Procurri to participate in the upgrade process through our disposal and recycling services, and also provides us with the opportunity to recirculate hardware back into the economy and/or back into the environment. Our solutions work hand-in-hand with the industrial journey towards greater energy efficiency, which benefits our business and our market overall.

ii. Can management elaborate further on the group's plans for HW & ITAD for Asia? Is the group looking at developing a market in Asia?

<u>Response:</u>

Procurri is looking to further develop its HW and ITAD businesses in the Asian market by expanding and deepening its presence. The Group is currently operating in Singapore, Malaysia, China and India and is looking into expanding to Japan on the back of existing global contracts.

We note that many countries across Asia are increasingly adopting policies to encourage sustainable business practices. This shift should strengthen Procurri's value proposition and market opportunity in the region in the coming years.

iii. Sales expenses: Selling expenses increased by 29% due to "reclassification of some sales expenses from administrative expenses". Can the audit committee (AC) help shareholders understand if the classification of expenses has been carried out appropriately in the past? Please provide a breakdown of the selling expenses of $27.05 million in FY2021 (FY2020: $20.97 million) to show the impact of the reclassification.

<u>Response:</u>

As part of Procurri's reorganisation of the business, to improve activity-based costing, the sales and sales operation employees' salaries have been reclassified from the

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[1] Source: International Telecommunications Union (ITU) "Global E-waste Monitor 2020" (2020)

administrative expenses to selling expenses. The reclassification resulted in the change in presentation to better reflect the associated cost of selling.

	Group		
	FY2021	**FY2020**	**Change**
	$'000	$'000	%
The employee benefits expense charged under			
- Administrative expenses	19,123	27,745	-31.1
- Selling expenses	26,756	20,494	+30.6
	45,879	48,239	-4.9

	Group		
	FY2021	**FY2020**	**Change**
	$'000	$'000	%
Selling expenses			
- Employee benefit expenses	26,756	20,494	+30.6
- Sales and marketing expenses	294	476	-38.2
	27,050	20,970	+29.0

iv. Third party maintenance (TPM): What is management's strategy to reverse the drop in revenue from TPM? What are the major opportunities in the next 18-24 months? What is the typical duration of a TPM contract?

Response:

Sales activity of the TPM business remained muted in FY2021. We have noted in our investor reports over the past year that softer TPM performance has been driven by:

- COVID-19 restrictions around the world suppressed our ability to conduct vital face-to-face sales meetings to enter data centres and to sign TPM contracts. The TPM business involves a high degree of customer trust, placing Procurri into the position of handling mission-critical equipment and data. As such, effective sales often requires in-person visits and meetings which have been difficult to conduct in many regions and nations; and

- Increased discipline in limiting new customer onboarding with TPM as Procurri focused on using the softer COVID-19 environment as an opportunity to upgrade our TPM systems, infrastructure and processes. We expect that the significant investment Procurri made in FY2021 should yield positive contributions to TPM in FY2022.

With the re-opening of global economies and global travel this year, we are seeing significant improvement in sales opportunity for TPM. While we do not release projections for our TPM business, we note that the upgraded TPM infrastructure, combined with the strength of our Global Accounts team focused on large global key accounts, is creating solid pipeline opportunity for the TPM business this year.

The typical duration of a TPM contract is 12 months. However, the majority of contracts are renewed, creating multi-year commercial relationships with our customers.

Question 2

"Inventories write-down" is one of the key audit matters (KAMs) highlighted by the independent auditor in their report on the audit of the financial statements. Key audit matters are those matters that, in the professional judgement of the Independent Auditor, were of most significance in the audit of the financial statements of the current period.

As shown in the Kam (page 76), the group's net inventories amounted to $20,928,000 as at 31 December 2021 and the allowance to write-down to net realisable value ("NRV") amounted to $9,951,000 during the financial year. The group's inventories mainly consist of computer hardware and peripheral equipment, which are subject to risks of obsolescence due to technological advancements or changes in consumers' preference. The determination of inventory write-down to NRV requires management to exercise judgement in identifying slow-moving and obsolete inventories and make estimates of the quantum of such write down based on their market value.

Response:

The reduction of inventory is one of the benefits of the global strategic re-organisation Procurri has undertaken to build long-term growth prospects. A lower dependence on inventory allows Procurri to reduce its structural exposure to inventory obsolescence, and improve the Company's return on working capital.

The strategic reduction of inventory involved a comprehensive approach including accelerated selling of inventory to reduce ongoing stocks, investment in IT systems to automate inventory reporting and management, identification of and write-downs of stale inventory, and efforts to share inventory across our hardware and TPM lines of business to improve inventory efficiency.

i. **What is the average age of the group's inventories following the write-down?**

   Response:

   Procurri successfully reduced its overall inventory days from 66 days in FY2020 to 55 days in FY2021.

ii. **Can management help shareholders better understand the reasons for the significant increases in inventories write-down in FY2020 and FY2021? Why was there an increase in "multi-generational inventories"? Does this refer to old/outdated inventories?**

   Response:

   The strategic reduction of inventory in FY2020 and FY2021 included efforts to sell inventory and to write off inventory identified as unlikely to be sellable, resulting in higher than usual write-downs.

   Multi-generation inventories refer to the inventories of superseded models of IT equipment produced at different time which specification will have changed due technological advancements. The Group purchases and sells data centre IT equipment to serve enterprise customers whose IT equipment ranges from brand new to over 30 years old. With the significant diversity of usable equipment across our customer base, and the long operating life of the IT hardware equipment, there is no corelation between product shelf life and old/outdated inventories against the write-down.

iii. **Was there under-provision in prior years for stock obsolescence? Or has management changed its stock obsolescence policy? What is the level of oversight by the AC on the group's stock obsolescence?**

Response:

The Company does not believe it under-provisioned in prior years for stock obsolescence. Rather, the higher obsolescence in FY2020 and FY2021 was the result of our efforts to reduce the inventory dependence of our business and thereby increase efficiency of our inventory.

The Group expects that its strategic efforts to increase the productivity of its inventory should help reduce its obsolescence rate over time.

The AC has had oversight over the strategic inventory reduction at Procurri, and has also examined findings on Key Audit Matters and other financial reporting matters together with the external auditors and management. The AC has assessed the management's judgements and estimates, and has considered the approach and methodology applied to valuation models, and reviewed the accounting treatments adopted by management.

In addition to AC oversight over inventory and working capital, the Group's Internal Audit function has performed periodic reviews on the internal controls and management of inventories of the Group. Findings and recommendations have been reviewed and discussed with the management and with the AC.

iv. **Would management be looking at how it could better optimise the restocking of its inventories so as to reduce inventories write-down?**

Response:

As noted above, the strategic initiatives we have taken to reduce inventory dependence should also reduce inventory obsolescence rates for Procurri going forward.

Inventory days for Procurri have already been reduced significantly over the past year, thereby reducing the total inventory exposure for the business. Our upgraded IT systems, together with stronger co-ordination between our businesses units to share and re-use inventory, should also help reduce obsolescence and increase productivity of our inventory.

Question 3

As disclosed in the corporate governance report, the group has an in-house internal audit function that is carried out by the Group's internal audit ("GIA").

The GIA is independent of the management and assists the group in evaluating and assessing the effectiveness of internal controls and to consequently highlight the areas where control weaknesses exist, if any.

GIA reports primarily to the audit committee ("AC") Chairman. GIA operates under a charter from the AC that gives it unrestricted access to review the documents, records, properties and personnel of the group and carries out his function in accordance with the standards set by internationally recognised professional bodies including the Standards for the Professional Practice of Internal Auditing set by the Institute of Internal Auditors.

The AC is satisfied that the internal audit function is independent, effective and adequately resourced by personnel with the relevant qualifications and experience.

i. **Can the AC confirm that the GIA is a single individual (page 65)?**

ii. **If so, can the AC help shareholders understand how it determined that the GIA function is adequately resourced? The group has a global network of 22 offices, 100+ countries under coverage and over 480+ employees.**

Response to i and ii:

The GIA is a single individual.

The Group currently operates a comprehensive internal audit schedule to cover its global operations. Rolling 3-year internal audit plans are prepared, reviewed and put up for discussion with the AC regularly to ensure that all the major subsidiaries and key focus areas are covered within the scope.

In the event that more resources are required to be deployed for internal audit matters, the Company will continue to engage external service providers to assist the GIA with the Company's internal audit functions.

iii. **What was the scope of the internal audit in FY2021? Can the AC confirm that the major foreign subsidiaries were covered in the IA?**

Response:

The scope of the internal audit in FY2021 covered key risk areas and critical business processes, as well as internal controls within each process. The AC confirms that the major foreign subsidiaries were covered in the Group's 3-year internal audit plan.

iv. **How did the closure of national borders affect the GIA and the scope of the internal audit?**

Response:

The imposition of some form of travel restrictions during the last two years did not significantly affect the operation of GIA and scope of the internal audit other than for the GIA adopting remote audits as opposed to onsite audits.

v. What were the key findings by the GIA for FY2021?

Response:

Whilst the Company considers the findings confidential, as, among others, public disclosure may inadvertently expose the business to the exploitation of risks, we note that:

- There were no internal audit findings assessed as high risk in FY2021.
- There were several lower-risk areas identified, and the Board, management and GIA have reviewed and agreed on actions to address these risk areas.
- The Company shares its internal audit report with our external auditor for review.

BY ORDER OF THE BOARD
PROCURRI CORPORATION LIMITED

Thomas Sean Murphy
Chairman and Global Chief Executive Officer
22 April 2022