

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

RESPONSE TO QUERIES FROM SGX

The Board of Directors (the “**Board**”) of Procurri Corporation Limited (the “**Company**” and, together with its subsidiaries, the “**Group**”) refers to the queries raised by the Singapore Exchange Regulation Pte. Ltd. on 3 March 2022 in respect of the Company’s announcement on 24 February 2022 in relation to its full year results for its financial year ended 31 December 2021 (“**FY2021 Results**”). Terms used in this announcement shall bear the meanings ascribed to them in the FY2021 Results unless the context otherwise requires. The responses of the Company are set out as follows:

Query #1:

Under Note 12 Inventories, it is stated that, “During financial year ended 31 December 2021, the Group wrote down S\$9,951,000 (31 December 2020: S\$7,355,000) of inventories. This expense is included in cost of sales in the statement of profit or loss. The carrying amount of inventories stated at the lower of cost and NRV as at 31 December 2021 was S\$20,928,000 (31 December 2020: S\$26,035,000).”

- (i) Why is there an increase in inventory write-off?
- (ii) Please disclose the amount of inventory write-off/provision identified as a result of discrepancies between stock counts and inventory record (i.e. missing/ lost inventory).
- (iii) Please disclose the amount of inventory write-off/provision due to slow-moving inventory or obsolescence.
- (iv) Please disclose the breakdown of the Company’s inventory write-off/provision by aging.
- (v) What is the general shelf/product life of the Company’s inventory?
- (vi) Please opine on the reasonableness of methodologies used to determine provision/impairment.
- (vii) Please provide the Group’s inventory turnover days for FY2021 and FY2020 and elaborate if there is a material difference in the inventory turnover days.

Company’s Response:

- (i) The Group uses inventory in its core business of providing IT hardware solutions to enterprises globally. The Group’s inventory obsolescence in FY2021 represented 3.98% of revenue compared to 3.15% of revenue in FY2020. The +0.83% increase in obsolescence (amounting to S\$2,077,000 or the “**Increase**”) is driven primarily by:
 1. **Strategic improvement in inventory productivity.** As part of its long-term growth plans, the Company sought to improve the productivity of its operating inventory in FY2021, reducing its overall inventory days from 66 days in FY2020 to 55 days in FY2021. This strategic initiative included increased efforts to sell inventory and to write off inventory identified as unlikely to be sellable. The productivity improvements drove approximately S\$776,000 of the Increase.

2. **Upgrades to financial infrastructure and systems.** The Company undertook a significant investment in FY2021 to upgrade its global financial systems to improve business governance, execution, reporting and strategic agility. As part of the systems migration process, the Company appointed an independent adviser to assist in identifying and recommending one-time write-offs amounting to approximately S\$1,301,000 of the Increase.

(ii) Other than the write-offs mentioned in (i)(2) above, the amount of inventories written off as a result of discrepancies between stock counts and inventory record is S\$1,225,000. The Group maintains a continuing effort to reduce these discrepancies, including the implementation of a global inventory IT system in FY2021 that should facilitate identifying and reducing such differences going forward.

(iii) The Group maintains a policy of obsoleting inventory that is not sold within 395 days (approximately 13 months). This obsolescence is part of the Group's ordinary course of business model as it purchases and sells IT hardware equipment to provide sustainable IT solutions to enterprises globally. In FY2021 such ordinary course obsolescence amounted to S\$7,425,000. The Group expects that its strategic efforts to increase the productivity of its inventory (as noted in (i) above) should help reduce its obsolescence rate over time.

(iv) The aging profile of the inventory write-off/provision is as follows:

	FY2021 S\$,000
0 – 30 days	2
31 – 60 days	23
61 – 90 days	15
91 – 120 days	40
121 – 150 days	24
151 – 180 days	70
181 – 360 days	311
More than 360 days	9,466
	9,951

(v) The Company purchases and sells data centre IT equipment to serve enterprise customers whose IT equipment infrastructure ranges from brand new to over 30 years old. With the significant dispersion of usable equipment lifetime across our customer base and the long operating life of our IT hardware equipment, there is no specific product shelf life on our inventories. The Company therefore uses market demand to establish a prudent, consistent, and analytical approach to obsoleting its inventory to reflect net realisable market value, as described in (iii) above.

(vi) The Company considers its policies for inventory obsolescence to be reasonable and prudent. The approach reflects market demand and market net realisable value for inventory (as noted in (iii) above), and the Company has not hesitated to seek independent expert advice to review and optimise its practices (as noted in (ii) above). The Company has also upgraded its financial infrastructure (as noted in (i) above) to drive increasing productivity, automation and best practices in its inventory procedures as it builds its long-term growth prospects.

(vii) As noted in (i) above, the Company strategically improved the productivity of its operating inventory in 2021, resulting in a reduction of inventory days from 66 days in FY2020 to 55 days in FY2021.

Query #2:

Please disclose a breakdown of trade and other payables amounting to SGD 35,624,000 as at 31 December 2021. Please disclose the aging and nature of the trade and other payables and whether the counterparties are related parties.

Company's Response:

The breakdown of trade and other payables is as follow:

	As at 31 December 2021 S\$,000
Trade payables	
- Third parties	15,260
Other payables	
- Third parties	884
- Withholding tax payable	125
- Sales tax payable	2,251
- Accrued operating expenses	17,104
	<u>20,363</u>
Total trade and other payables	<u>35,624</u>

The aged profile of the trade and other payables is as follow:

	S\$,000
Current	28,518
0 – 30 days	3,503
31 – 60 days	2,148
More than 60 days	1,455
	<u>35,624</u>

Trade payables mainly comprises services, inventories, warehousing and logistics. The other payables include payables that are not trading in nature, accrued operating expenses, sales tax payables and withholding tax payables. There are no counterparty or related party balance recorded in the Group trade and other payables as at 31 December 2021.

BY ORDER OF THE BOARD

Thomas Sean Murphy
Chairman and Global Chief Executive Officer
7 March 2022