



Securities Investors Association (Singapore)
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Issuer: IPS Securex Holdings Limited

Stock code: 42N

Meeting details:

Date: 28 October 2021

Time: 9.00 a.m.

Due to the current COVID-19 pandemic, SIAS encourage shareholders to participate at AGMs via other means and not to attend any AGM physically. Where the AGM is webcast, they can stay on top of their investments by watching the webcast and submitting their question to the company in advance. Senior citizens should avoid attending AGMs altogether and stay home.

Q1. In FY2020, the group experienced a significant increase in revenue after years of declining revenue. In FY2021, 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?**

Q2. 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 and below S\$500,000	0%	\$447,125	\$(2,500,000)
FY2018		0%	\$446,599	\$(1,291,000)
FY2019		0%	\$446,554	\$(1,212,000)
FY2020	Above S\$500,000 and below S\$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 report)

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.

Q3. The company is cognisant 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)?**

^On 1 October 2020, the Accounting and Corporate Regulatory Authority ("ACRA"), the Monetary Authority of Singapore ("MAS") and Singapore Exchange Regulation ("SGX RegCo") published an updated checklist to guide listed entities on the conduct of general meetings arising from the latest updates from the Multi-Ministry Taskforce.

Issuers may continue to conduct their general meetings held on or before 30 June 2021 via electronic means, and are encouraged to do so. On 9 April 2021, it was announced that the alternate arrangements for meetings ("Meetings Order") would be extend beyond 30 June 2021 until it is revoked or amended by the Ministry of Law. Accordingly, until such time, issuers may continue to utilise the Checklist issued by ACRA, MAS and SGX RegCo to guide entities on the conduct of their general meetings.

Issuers who, after due consideration of public health and other risks, wish to provide for physical attendance at their general meetings must ensure that they implement all relevant measures to comply with the safe management measures imposed by the Singapore Government.

Shareholders are welcome to use and/or adapt the questions prepared by SIAS and to forward them to the company.

Can't attend the AGM or view the webcast? Check out the latest questions on the annual reports of listed companies on [SIAS website](http://www.sias.org.sg)

Join our mailing list [here](#) to receive latest news and upcoming events.

^ Guidance on the Conduct of General Meetings Amid Evolving COVID-19 Situation
 (<https://www.sgx.com/media-centre/20201001-guidance-conduct-general-meetings-amid-evolving-covid-19-situation>)



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