



SILVERLAKE AXIS LTD.
(Registered in Singapore)
(Company Registration No. 202133173M)

RESPONSE TO QUESTIONS RECEIVED FROM SHAREHOLDERS PRIOR TO THE COMPANY'S ANNUAL GENERAL MEETING

The Board of Directors (the “**Board**”) of Silverlake Axis Ltd. (the “**Company**” or “**SAL**” and together with its subsidiaries, the “**Group**” or “**SAL Group**”) would like to thank shareholders for submitting their questions in advance of the Company’s Annual General Meeting (“**AGM**”) to be convened and held at Banquet Suite, Level 10, M Hotel Singapore, 81 Anson Road, Singapore 079908 on Thursday, 26 October 2023 at 2.00 p.m.

The Company’s responses to the second batch of shareholders’ questions, which are copied verbatim in this announcement, are grouped according to topics as set out below:

- A. Business Performance (including Dividend) and Prospects
- B. SAL Shares and Capital Management
- C. Corporate Governance

It is important to note that these questions and responses should be read in conjunction with the Company’s Annual Report 2023 and with contextual reference to the proceedings of the AGM including the presentation to be made and resolutions tabled at the AGM, along with the Company’s previous announcements.

Section A – Business Performance (including Dividend) and Prospects

Question A.1

Would the board/management provide shareholders with greater clarity on the following operational matters? Specifically:

- (i) **Silverlake Axis Integrated Banking Solution (“SIBS”)**: In the 2014 annual report, the company reported that it serves 40% of the largest banks in South East Asia. Ten years later, in the 2023 annual report, the company states that 40% of the top 20 largest banks in South East Asia use its core banking solutions. **Can management elaborate further on the progress made in gaining new customers for SIBS? How does the group incentivise potential customers to undertake a significant core banking transformation, especially given the substantial operational risks involved? In addition, what are the features and safeguards that make SIBS resilient to outages and breakdowns?**
- (ii) **Digital Banking MÖBIUS Open Banking Platform (“MÖBIUS”)**: Management has indicated that the two deployments of MÖBIUS in Thailand and Malaysia have acted as reference points, resulting in increased participation in proposals. **What are the key demand drivers for MÖBIUS and is the majority of the new customers for MÖBIUS composed of digital banks?**
- (iii) **Insurance**: The group, via Fermion Merimen, offers a Software-as-a-Service (SaaS) collaborative platform that links different parties in the Insurance Ecosystem to ensure faster processing speed, improved efficiency and easier performance evaluation. Fermion Merimen is recognised as a “market leader in eClaims” in key ASEAN countries. **Could management offer insights into Fermion Merimen’s market share in these key markets and provide information about its competitors?**

- (iv) **Artificial intelligence (AI) and anti-money laundering (AML):** Can the board and management provide shareholders with a more comprehensive understanding of how the group is integrating AI into its products and services? Is the group well positioned to capitalise on AI and be a first-mover in the market? Similarly, are there opportunities within the AML sector, and does the group have any products in its development pipeline targeting this area?
- (v) **Profit margin:** The net profit margin decline to 22% in FY2023 even as the gross profit margin improved by 2% from 57% to 59%. Just prior to the pandemic, the group achieved a net profit margin 36% when the gross profit margin was 63%. While management has attributed the pressure on the group's profit margin to the costs associated with human talent and skilled technical resources, it's worth noting that the employee benefits expense decreased from RM325.3 million to RM323.7 million (Refer to Note 8 on Employee Benefits Expense; page 145). **Could management offer shareholders a more detailed breakdown, possibly through the use of a waterfall diagram, to illustrate the main factors contributing to the decline in net profit from RM182.7 million in FY2022 to RM170.3 million in FY2023 even as gross profit increase by 8% to RM451 million?**
- (vi) **Dividend payout ratio:** As mentioned in the chairman's statement, the board is proposing to maintain a 30% dividend payout ratio even as the group concluded the year with "circa RM500 million in cash reserves" (page 7). In fact, in 2014, the dividend policy then was to pay out not less than 40% of the group's net profits as dividends. The board's rationale is to strike a balance between providing returns to shareholders and maintaining a conservative outlook on the future. **Nevertheless, considering that approximately 75% of the total revenue is derived from recurring sources, has the board assessed the possibilities of increasing the dividend payout ratio to a range of 50%-75%?**

Response:

(i) SIBS

Our significant customer base accumulated over the years and knowledge of the banking requirements in the region has positioned us well to maintain relevancy of SIBS in the core banking market space. SIBS over the years have been enhanced to meet the regional banking industry's business requirements, regulatory compliances as well as preparing the banks in this region for their future needs. Over the last few years, we have gained new customers adding new named customers to our current base. In addition to banks, our adaptive and flexible SIBS solution has been extended to non-banks in the financial services space and players in the Fintech world and as a result, we have several non-banks and Fintech players who adopted our SIBS platform. This clearly demonstrates the versatility of our SIBS solution and our success in further expanding beyond the traditional market of banks. We are also building new Partnerships in tandem with our continuous enrichment and adoption of leading technology, centred around Application Programming Interface ("APIs"), Microservices, Cloud, Artificial Intelligence ("AI") & Data as well as other emerging technology.

SAL Group offers comprehensive solutions from our deep knowledge of the financial services industry. We live and breathe the 3 'E's – Experience, Expertise and Execution; resulting from over 300 implementation projects, including the ability to support complex regional mergers and acquisitions by banks and empowering financial institutions to provide innovative, diverse and targeted market financial products and solutions for their clients. In ASEAN, our large footprint in the region provides confidence and assurance to both existing and potential customers to entrust and partner SAL Group for their core banking transformation.

As a trusted Core Banking Partner to leading banks and financial institutions for more than 33 years, coupled with the strong endorsements from industry analysts and consultants backed by an impeccable track record of 100% success in core banking implementations and our collaborative model of shared ownership, we continue to deliver our proven stable scalable and resilient Core Banking Platform across ASEAN and the region. It is with this track record, experience and expertise that we are able to convince banks to undertake such large-scale transformation with SAL Group.

SIBS is a highly digitalised and modernised Core System leveraging IBM Power I Platform which has been rated as highly stable and reliable. It provides Always-On and Real Time Redundancy complemented with SIBS Stand-In Features if required. This was noted by ITIC's 2023 Global Server Hardware, Server OS Reliability survey – for many years consecutively.

Such Resilience is continuously being reinforced with technological innovations from Global Technology Partners wherein our adaptive Continuous Availability Design and Solutions based on repeatedly tested Instance and Real Time Redundancy and Instant Failover provides the assurances and mitigation to disruption, outages and breakdowns. SAL Group also continues to focus and invest in Cybersecurity, Resilience and Data Privacy to provide a holistic coverage.

(ii) MÖBIUS

The reference from the Thailand project has generated strong interest from banks in Thailand, Philippines and other countries. The demand drivers are the new business models enabled by MÖBIUS and the cloud-native platform offered by MÖBIUS. Banks are attracted to the ability to offer new products at speed and its flexibility to target new customers to address their top line and bottom line using innovative products such as MÖBIUS.

Our recent win in a Bank in Malaysia is closely monitored by other banks as it is a reference model on how to implement a multi-core model to capitalise on new technology while maintaining the existing core. We are excited that the opportunities for MÖBIUS go beyond a core replacement. MÖBIUS is generating interest and traction in incumbent banks looking to leap frog and transform digitally and changing their business model to stay ahead of competition. Our focus is beyond the standalone digital banks which have been awarded digital banking licenses.

(iii) Insurance

We currently have approximately 90%, 60%, 50% and 50% market shares in Malaysia, Indonesia, Philippines and Singapore respectively.

Our e-claims market share is relatively small in Thailand, Vietnam, Hong Kong, Japan and UAE, and still in its infancy stage but with great future potential.

In Thailand, our primary competitor and the dominant provider is BlueVenture Group PCL (formerly known as EMCS Thai Co. Ltd.).

In other markets, our competition is from largely in-house systems built and owned by insurers. In these geographies, our third-party competitors are:

- Indonesia – BengkelNet
- Singapore – Shift
- Hong Kong – CoverGo
- UAE – Motori

(iv) Artificial intelligence (AI) and Anti-Money Laundering (AML)

AI is certainly an important development in technology. It is anticipated that the technology will advance rapidly in future and creating impact to the banking industry. We are taking this development seriously on how it will deliver value to our customers. SAL Group products are ready to embed intelligence such as Smart Analytics and AI. With our proven solution domains from which we developed rich pre-trained models in the Financial Services Industry, anchored on our 30+ years of experience, we can combine industry regulations, security, performance and ecosystem demands to enable intelligence application for our customers. We have created the CloudLink solution to provide high performance cloud-based and secured ecosystems orchestration with data and AI driven outcomes. This is SAL Group's contribution to provide a comprehensive suite of sustainable, evolutionary, adaptive and agile solutions.

Our differentiation is we are able to deliver innovative technology that works for our clients and solve actual real-world problems. This is our products and services design principles

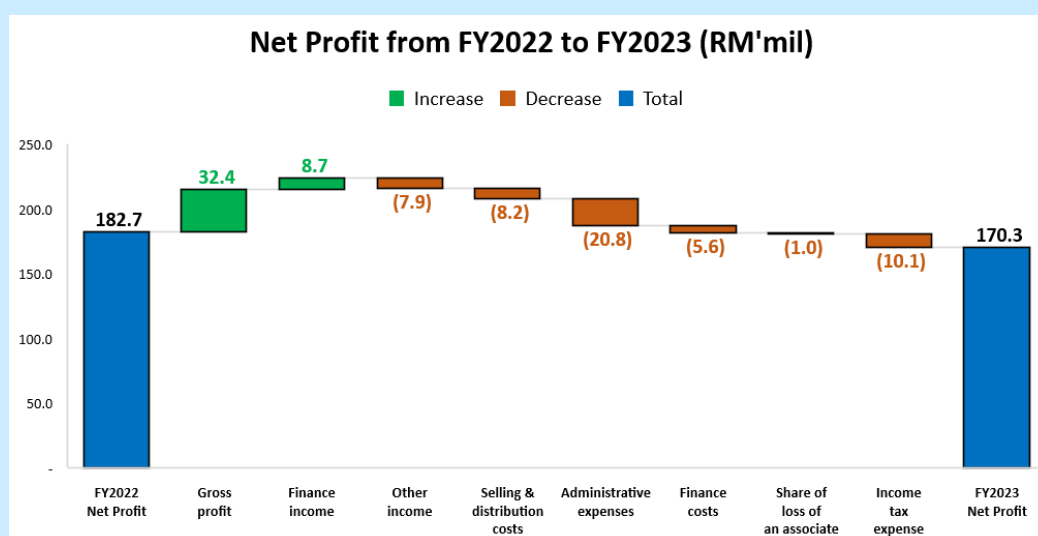
which will include AI and Smart Analytics. This is proven in our success in delivering AI use cases and AI imaging augmentation for our insurance customers.

We are thus uniquely well positioned to capitalise on the above to use Generative AI technologies to deliver actual effective end to end solutions that are purpose driven that works for our customers and markets.

AML is a specialised field with its complexity and requirement, it is highly dominant by niche players. SAL Group works with partners in this specialised field when required by our customers.

(v) Profit margin

The main factors contributing to the decline in net profit from RM182.7 million in FY2022 to RM170.3 million in FY2023 are as presented in waterfall chart below.



In FY2023, the Group has added new headcounts into the organisation to support business development, business expansion, sales and market coverage. These function costs are recognised below Gross Profit and the returns may only be realised in the subsequent years as the Group has just initiated a strategic plan to improve its market presence with strategic partners engaged or dedicated sales representatives hired around the countries which we operate in.

Post pandemic, business and travelling have resumed to facilitate better clients' engagement and the Group has also invested in Enterprise Resource Planning ("ERP") system as part of internal process improvement to support the expanded business operations and activities. As a result, the IT expenses particularly in software subscription and support as well as laptop leasing for new headcounts were higher in FY2023 as compared to FY2022.

To support project implementation with the required expertise and cost consideration for longer term period, the Group has contracted qualified workforce or contractors to support the implementation of contracts won. These subcontractor fees are not fixed cost and they are being engaged on need basis. These expenses were not captured and presented under Note 8 to the financial statements – Employee Benefits Expense.

In addition, the Group recorded some uncontrollable costs in FY2023 such as foreign currency exchange loss as well as expected credit losses in accordance with IFRS 9 Financial Instruments arising from slower collection from clients.

Income tax expense was higher due to lower incentive or bilateral tax relief available to be claimed in FY2023 and higher chargeable income derived from higher revenue and profitability from recurring revenue stream in FY2023.

(vi) Dividend payout ratio

The Board is of the view that there are various ways companies can reward their shareholders for their investments and not merely through declaration of large one-off dividend. It is appropriate for the Company to maintain and conserve sufficient cash to undertake any business opportunities should they arise and this is in line with the Company's corporate objective to deliver long term value for all our stakeholders.

The most common methods are dividends, share buybacks, and re-investing in growth.

- The Company proposed dividend of Singapore 0.60 cents per ordinary share for FY2023 which represents dividend yield of 1.7% for FY2023. This is comparable with similar industry players which recorded dividend yield in the range of 1% to 2%.

Total cumulative dividends declared/paid since FY2003 (including FY2023 proposed dividend) amounted to RM2.30 billion. The average payout ratio is approximately 60%.

- The Company performs share buybacks from time to time during the years. In FY2022, the Company made an Equal Access Offer which provides shareholders an opportunity to realise their investments in the Company's shares at a premium over market prices of the shares without incurring transaction costs. The Company has distributed RM177 million as consideration to purchase 170 million shares from shareholders. The Equal Access price of SGD0.33 per share was at a 17.86% premium of the last transacted price of SGD0.28 per share on 11 March 2022.
- Due to market volatility and continued uncertainty in the economy, the Board is of the view that it is important for the Group to conserve cash to ensure that there is sufficient working capital to sustain the long-term viability of the Group's business in IT industry (e.g., to develop and enhance products offerings) and to take any business advantages, including strategic acquisitions and partnerships, when opportunities arise to maximise returns with long term consideration.

Section B – SAL Shares and Capital Management

Question B.1

For the financial year ended 30 June 2022, the company acquired 170.2 million shares in an off-market equal access scheme. At the close of the offer, the number of shares purchased by the company represented approximately 70.22% of the maximum share purchase amount available under the equal access offer.

The offer price under the scheme was \$0.33 per share.

- Has the board conducted a review of the equal access offer and reassessed its effectiveness in "enhancing shareholders' value"?**
- Was the final amount of 170.2 million (equivalent to 70.22% of the maximum amount) tendered by shareholders in line with the board's expectations, or did it fall below their anticipated level?**

The company utilised a revolving credit facility to finance the equal access offer. A drawdown of RM173.9 million was made to finance the settlement of the off-market equal access purchase. In FY2023, the group experienced a 21% cost increase "*attributable to finance costs incurred on a revolving credit facility drawdown for a corporate exercise executed in Q4 last year whereby interest was charged and captured for full year this year versus one month in the previous year*". As seen in Note 6 (Finance costs; page 144), the interest expense on the revolving credit facility was RM333,938 in FY2022 and RM7.52 million in FY2023. In addition, an upfront fee of RM1.51 million was charged as well. The average interest rate for the revolving credit facility was 4.62% in 2023 (2022: 1.97%).

- Can the board offer shareholders insights into the group's capital management strategy, particularly the decision to utilise its revolving credit facility to finance the equal access offer during a period of elevated interest rates?**

- (iv) **Given that cash and cash equivalents amounted to RM494.7 million as at 30 June 2023 (2022: RM548.8 million), where are the reasons that the board/management elected not to use its own cash but instead rely on a revolving credit facility?**

In addition, the company bought back 4,498,700 shares for RM5.38 million in FY2023. At the end of the reporting period, the company holds 184.6 million treasury shares.

- (v) **Apart from the release of treasury shares in accordance with the company's performance share plan, what are the other uses of the company's treasury shares?**

Response:

- (i) The rationale for the Equal Access Offer was to enhance shareholders' value by reducing shares in circulation and increasing earnings per share of the Company, while at the same time providing shareholders an opportunity to realise their investments at a premium to the prevailing market price. As detailed in the offer documentation, the offer price of SGD0.33 per share represented a 13-18% premium to the prevailing market price during the time leading up to the announcement on 14 March 2022. Looking back, the offer price provided a 5.1% premium and a 10.7% discount compared to the volume-weighted average price ("VWAP") of shares traded in the open market during the second half of FY2022 (January to June 2022) and full year FY2023, respectively. In total, the Company acquired 170.2 million shares. It would take several months to purchase the same number of shares in the open market, given the average daily trading volume of about 2 million shares during FY2022. It is not unlikely that open market repurchases would have resulted in a higher price per share and greater uncertainty around the cost.
- (ii) The final amount of 170.2 million (equivalent to 70.22% of the maximum amount) shares tendered by shareholders were in line with the Board's expectations.
- (iii)(iv) The Group manages its capital structure and optimises debt and equity mix to maintain a balance between operational liquidity and maximise returns for long-term viability of the Group's business. As the global and regional business climate went through testing times in 2022/2023 and remain uncertainty with global inflation, rising interest rates and the prolonged war in Ukraine, it is prudent for the Group to conserve cash and maintain available banking facilities of a reasonable level to its overall debt position. During the challenging economic environment, financial institutions may be more stringent in offering loan facilities.

The current cash reserves as at 30 June 2023 are sufficient to support the Group's operating cash flow for approximately nine (9) months. Strong cash position of the Group will enable us to weather market volatility and seize business opportunities as they arise.

The Group has drawdown revolving credit facility of RM173.9 million to finance the off-market equal access offer in May 2022 when interest rates are low. The Group continues to maintain a healthy debt leverage level at 0.21 times in FY2022 and 0.16 times in FY2023 with the revolving credit facility.

Interest rates started rising in quarter 3 2022. However, the increase in interest rate is unlikely to have any material impact to the Group's overall financial performance and position. Whilst interest rate on loans and borrowings increases, the Group concurrently earn higher interest income from the cash conserved i.e., cash placed as short-term deposits with licensed banks and the interest earned from current account interest enhancement facility. With this, the impact from the increase in interest expenses was partially offset by the higher interest income earned during the year.

The Group has a plan to repay the revolving credit facility and will continuously monitor the overall cash and debt position to optimise available cash and borrowings, and ensure sufficient liquidity which may provide us ample flexibility for growth. As for FY2023, the Group made partial repayment of the revolving credit facility amounted to RM36.4 million.

- (v) Apart from the release of treasury shares pursuant to the Company's Performance Share Plan, the Company's treasury shares can be sold or reissued as consideration for future acquisitions. We have no intention to cancel treasury shares at present.

Section C – Corporate Governance

Question C.1

In the company's corporate governance statement (page 61), the board stated that it recognises the importance of good corporate governance in ensuring greater transparency, protecting the interests of its shareholders as well as strengthening investors' confidence in its management and financial reporting. The board committed to maintaining a high standard of corporate governance within the company and its subsidiaries.

The board currently comprises twelve members of which four are executive directors (including the chairman), two are non-independent non-executive directors and six independent directors.

While the board is cognisant that it has deviated from provision 2.2 of the Code of Corporate Governance 2018 (CG Code 2018) which requires a majority of the board where the chairman is not independent, it has simply stated that *"the [nominating committee] NC and the Board are mindful [of the deviation] and thus, have agreed that the Company will work towards compliance of this provision in the next one (1) to two (2) years in line with the Board Renewal and Succession Plan"*.

- (i) **Can the board/NC provide more extensive insights into the underlying reasons for the board's deviation from Provision 2.2 of the CG Code 2018? In other words, does the board regard compliance with Provision 2.2 as optional or unnecessary, or are there valid challenges that make it challenging to comply with this provision?**

In the previous annual report (AR2022), the company has stated the following:

As the Group Executive Chairman, Mr. Goh Peng Ooi is not an Independent Director, the NC is aware that the requirement of Provision 2.2 of the Corporate Governance Code requiring Independent Directors to make up a majority of the Board where Chairman is not independent, is not met. The NC and the Board are mindful and thus, **have agreed that the Company will work towards compliance of this provision in the next 1 to 2 years in line with the board renewal and succession plan**. [emphasis added] The NC and Board concluded that no immediate addition will be made to the current total of Independent Directors as an eleven (11)-member Board would be too large for the size of the Company.

It is noted that Tan Sri Dato' Dr. Mohd Munir Bin Abdul Majid, an independent director, would be retiring at the conclusion of the annual general meeting on 26 October 2023.

Also, in AR2022, the board explicitly stated that it is of the view that the existing board size of 10 directors is "sufficient for its purpose" and that a board size of 11 would be "too large" (as shown above). However, in AR2023, the board has changed its view that the existing board size of 12 is "sufficient for its purpose".

- (ii) **Could the board or the NC furnish shareholders with a more in-depth insight into the extent to which they have systematically, methodically, and analytically addressed the issue of board size? Furthermore, could they elaborate on the rationale underpinning their determination of the optimal board size, as opposed to merely satisfying the requirement for sufficiency?**
- (iii) **With the impending retirement of Tan Sri Dato' Dr. Mohd Munir Bin Abdul Majid, what other changes will the NC/board be recommending and making to the board composition as part of the board renewal and succession plan while duly considering the board's compliance with Provision 2.2?**
- (iv) **Would the NC be establishing a specific and actionable timeline for achieving compliance with Provision 2.2 of the CG Code 2018, instead of repeatedly**

indicating an intention to work towards compliance "in the next 1 to 2 years" on an annual basis?

- (v) **Separately, given that the company has adopted a Board diversity policy in August 2021, please state the key aspects of the policy and help shareholders understand the progress made in board diversity since its adoption.**

Response:

The Board remains highly committed to maintaining a high standard of corporate governance within SAL Group and continuously seeks to maintain an appropriate and balanced Board in terms of skills, experience, background, gender, age and other relevant factors, to ensure optimal effectiveness and contribution towards the development and growth of the Company. The Nominating Committee assists the Board in this aspect and conducts reviews and assessment on diversity, expertise, size and structure of the Board on an ongoing basis, focusing on sustainability, renewal and succession.

Nominating Committee has evaluated and the Board has approved changes to the composition of the Board. The changes after the restructuring will be announced after the AGM of the Company to be held on 26 October 2023.

BY ORDER OF THE BOARD

Andrew Tan Teik Wei
Group Managing Director

20 October 2023