

Issuer: Datapulse Technology Limited
Security: Datapulse Technology Limited

Meeting details:

Date: 23 November 2016

Time: 14:00H

Venue: Furama Riverfront, Venus 1, Level 3, 405 Havelock Road, Singapore 169633

Company Description

Datapulse Technology Limited, an investment holding company, manufactures and sells media storage products for content distribution in Singapore, Taiwan, other Asia Pacific regions, and internationally. Its digital storage products include compact discs, digital versatile discs, and Blu-ray discs. The company also provides services, including pre-mastering, mastering, replication, silkscreen/offset printing, print and packaging materials sourcing and procurement, automated and customized packaging, warehousing and distribution, and other turnkey services. In addition, it offers cards solutions, including design consultation; plastic/paper card printing and personalization; various data formats and card sizes support; text, 1D/2D barcodes, and logos; magnetic stripe encoding; online data integrity verification systems; kitting and customized packaging; and other turnkey services. The company was founded in 1980 and is based in Singapore.

(Source: http://www.sgx.com/wps/portal/sgxweb/home/company_disclosure/stockfacts?code=BKW)

Q1. In Note 22 (page 71 of the annual report - Operating segments), the three reportable segments are Singapore, Australia and Taiwan. The “Singapore” segment represents the group’s core business of media storage products and services.

The revenue and reportable segment profit/(loss) before tax figures from this segment are shown in the table below.

2010 \$	2011 \$	2012 \$	2013 \$	2014 \$	2015 \$	2016 \$
49,602,064	65,787,333	55,311,515	44,882,435	29,271,171	25,444,107	25,444,107
11,592,314	12,648,626	10,075,615	10,237,995	140,462	817,327	388,324

(Source: Datapulse Annual Reports)

Over the same period, the earnings per share were as high as 5.4 cents (adjusted for share consolidation) but currently just 0.41 cents for 2016. The return on assets fell from 12.1% to 1.6%. Market value added (the excess of the average market capitalisation over average shareholders’ funds for the year) also dropped from \$53 million to just \$6 million. All these would suggest that the market is less optimistic with the current situation of the group.

- (a) Have the new methods of content distribution (through cloud servers, and file sharing services) totally disrupted the core business of media storage?
- (b) Is the current business model viable for the future? Has the core business been disrupted by innovation? What are the prospects for media storage products?
- (c) Can management let shareholders know the concrete steps that will be taken to improve the profitability of the core business?
- (d) Can the board help shareholders understand how it has provided “entrepreneurial leadership” and what changes to the overall corporate strategy and directions are needed?

Q2. In the Letter to Shareholders (page 4), it was disclosed that the group has “completed the divestment of its entire shareholding in One Global Inc. (“OGI”) in August 2016 and will realise a gain on disposal of subsidiary of approximately \$5.6 million”. On page 78, it was also disclosed that the OGI disposal, for a consideration of TWD 144,500,000 (equivalent to \$6,064,000), was completed on 19 August 2016.

It was also disclosed in note 5 (page 51 – Investment property) that:

As at 31 July 2015, the investment property had an estimated valuation of \$16,531,403 based on fair value determined by China Real Estate Appraiser Firm

Assuming that the valuation of the investment property has not changed significantly, one could estimate that the OGI shares are worth the fair value of the property minus the liabilities (i.e. \$16,531,403 - \$ 6,340,909) or, \$10.2 million.

- (a) Can the board confirm that no independent valuation of the OGI shares was carried out prior to entry into the share sale and purchase agreement dated 7 July 2016?
- (b) If so, please help shareholders understand the reason(s).
- (c) If the estimated calculations are correct, the disposal of the OGI shares at \$6.1 million gives the buyer a discount of more than \$4 million from the latest available valuation. Can the board provide further clarification on how this disposal was carried out in a manner that was in the best interests of shareholders? Would a direct sale of the asset have been more beneficial to the group?

Q3. Two of the three independent directors have served the board since 1994 and 1999 respectively. **What are the board's renewal plans? Also, has the board started the succession and renewal planning for the key executive team?** New directors with the relevant experience and competencies can help the group to rethink the group's strategic direction, and provide fresh input on how disruptive technologies can upset the core business of content distribution.