Issuer: GDS Global Limited
Security: GDS Global Limited

Meeting details:
Date: 20 January 2017
Time: 10:00H
Venue: 86 International Road, Singapore 629176

Company Description

GDS Global Limited, an investment holding company, provides commercial and industrial, door and shutter solutions in Singapore and the South East Asia region. It offers industrial door systems, such as Gliderol continuous sheet roller doors; Gliderol GIANT series extra-large roller shutters; heavy duty roller shutters; high security roller shutters; insulated roller shutters; louvred roller shutters; sectional overhead doors; Renlita bi-folding doors; and Butzbach stacking doors. The company also provides commercial door systems, including Gliderol continuous sheet roller doors, Alfresco steel roller shutters, Crystal aluminum shutters, CrystalClear transparent shutters, premium aluminum roller grilles, high security roller shutters, and Butzbach glass stacking doors; hangar door systems, such as Gliderol GIANT series hangar doors and Butzbach sliding hangar doors; and various types of garage door systems that comprise sectional garage doors, roller doors, and Renlita tilt-up doors for use in private homes. In addition, it offers proprietary fire-rated shutter systems, such as non-insulated fire shutters, fire insulated curtains, and normal heat insulation shutters; and door systems for special applications, including Gliderol swift high-speed traffic doors, horizontally coiling hatches, Butzbach NOVOSPRINT high-speed traffic doors, Won-Door DuraSound acoustic accordion doors, and Won-Door FireGuard fire-rated accordion doors. Further, the company provides maintenance, repair, and replacement services of faulty components and safety checks; and manufactures metal doors, window and door frames, and grilles and gratings, as well as distributes industrial doors and door components. Its products are used in a range of industries, including manufacturing, retail, food processing, hospitality, health, education, aerospace, and security and defense. The company was founded in 1982 and is headquartered in Singapore. GDS Global Limited is a subsidiary of D'Oasis Pte. Ltd.
(Source: http://www.sgx.com/wps/portal/sgxweb/home/company_disclosure/stockfacts?code=5VP)

Q1. The company made its maiden acquisition as a listed company in January 2016 by acquiring a 51% majority stake in a complementary business, Grimm Industries Pte. Ltd. ("Grimm") for an aggregate purchase consideration of $2,040,000. In the announcement dated 29 January 2016, the rationale for the acquisition was stated as:

> *The Acquisition is a strategic investment by the Group and will allow the Group to strengthen its competitive advantage and its positioning as a leading specialist provider of commercial and industrial door and shutter solutions. It would enable the Group to leverage on the strength of the Target's expertise and network to design and procure proprietary components to be used in the manufacturing of its commercial and industrial door and shutter systems. This may lead to synergies that will result in better quality of proprietary components and increased cost savings.*

The goodwill on acquisition was recorded as $859,531 (page 82 of the annual report – Acquisition of subsidiary) and intangible assets (consisting of customer relationships and order backlog) amounted to $824,087.

In the Chairman's message to shareholders (page 4), it was said that "the integration of Grimm into the Group and the resultant synergies have been very encouraging."

a) **Can the company provide shareholders with more details on the stage of the integration of Grimm into the group? When would the integration be completed?**

b) **Can the company quantify some of the resultant synergies? For example, has the acquisition of Grimm led to increased sales in the group's core business of door and shutter systems? What is the expected cost savings after the integration of Grimm?**

c) **Since the acquisition of Grimm in January 2016, has the newly acquired subsidiary performed up to expectations? What are the lessons learnt by management from the acquisition and the subsequent integration over the past twelve months?**

d) **Would the group be looking to make more acquisitions in the near future?**

Q2. From the Financial Highlights (page 8), it can be seen that revenue increased to $25.1 million and the gross profit margin has been stable at 45.4%. However, net profit margin dropped to a low 10.9% as other operating expenses increased from $289k to $883k mainly due to the increase in allowances for impairment of $400k to $550,423.

Receivables that were individually assessed for impairment included (page 77 – Trade and other receivables):
- Customers placed under liquidation ($172,563)
- Customer under litigation ($457,068)
- Past due more than 12 months and no response to repayment demands ($196,885)

Also, in note 3 (page 69 - Key sources of estimation uncertainty), it was disclosed that the group has experienced certain challenges with collection of a further $568,000 which is outstanding from certain customers as at year end which has not been provided for.

a) **Given that trade and receivables have increased to $9.5 million and that there are signs of deteriorating credit worthiness of the customers, is the current credit risk management policy sufficient as the group grows and expands to new markets and to new clients?**

b) Can the company identify the profiles of the customers that are having difficulties in paying or have defaulted?

c) Is there a need for the board and the company to review and update its credit risk policy?

The current risk management policy calls for the group to obtain sufficient collateral where appropriate as a means of mitigating the risk of financial loss from defaults (page 73 – Credit risk management).

d) Was this policy strictly enforced, especially with first time clients or clients in the Middle East?

Q3. In the Chairman's message to shareholders (page 7), it was disclosed that a customised production automation line that employs robotic welding and heavy material handling equipment will be operational by mid-2017.

a) What is the current utilisation rate of the plant (before this new $1.5 million capital investment)?

b) What is the expected increase in the production capacity after the capital investment?

c) With the new customised production automation line, what are the projected benefits on:
i. Quality,
ii. Range and complexity of products,
iii. Cost base of the products?