

Issuer: OLS Enterprise Ltd

Security: OLS Enterprise Ltd

Meeting details:

Date: 28 July 2017

Time: 10.00 a.m.

Venue: YMCA @ one orchard, One Orchard Road, Singapore 238824

Company Description

OLS Enterprise Ltd., through its subsidiaries, produces films in Malaysia. It also offers consulting and contracting services. The company was formerly known as Transcu Group Limited and changed its name to OLS Enterprise Ltd. in July 2014. OLS Enterprise Ltd. was incorporated in 1968 and is based in Singapore.

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

Q1. On 27 May 2015, the company had announced the proposed acquisition of the entire issued and paid up shares in the share capital of Malaysian Phosphate Additives Sdn Bhd (MPA) which is principally engaged in the business of manufacturing of feed and fertiliser phosphate products. On 27 January 2017, following the failure of the parties to reach an agreement, the Share Purchase Agreement was automatically terminated upon the expiry of the grace period.

Then on 13 March 2017, the company announced that it had entered into a term sheet for the proposed acquisition of 20% of the issued and paid-up share capital of Venture Incorporation Public Co., Ltd., which is a public company incorporated in Thailand and listed on the Thailand Stock Exchange that primarily engaged in the investment and recoument of non-performing loans. On 9 May 2017, the company announced that it is “not satisfied with the findings of the Company’s due diligence investigations into the financial, legal, tax and business of the Target Group” and has decided not to proceed with the proposed acquisition.

As mentioned in the Chairman’s Statement and Operations Review (page 1 of the annual report), the company continues to explore “several options in financial services including, but not limited to investment management services”.

- a) **Can the company help shareholders understand the rationale for focusing on opportunities in the financial services? What expertise or the core competencies are there in the group to allow it to expand into financial services successfully?**
- b) **Has the board ensured that the search for new business is conducted in a robust and systematic manner? The recent proposed acquisitions were diverse in terms of industries (construction, agri-fertilisers, non-performing loans) and in geography (Singapore, Malaysia, Thailand). What level of due diligence is conducted to ensure that any newly acquired business will perform up to expectations?**

Q2. In Note 12 (page 53 – Investments in Subsidiary Corporations), it was disclosed that the Company invested an additional consideration of S\$400,000 into Ellebeau Group Pte. Ltd. and, by the end of the financial year, impaired the full amount of \$477,000.

12. INVESTMENTS IN SUBSIDIARY CORPORATIONS

	Company	
	2017 \$'000	2016 \$'000
<i>Unquoted equity investments, at cost</i>		
Beginning of financial year	77	550
Additions	400	-
Impairment loss	(477)	(473)
End of financial year	-	77

(Source: Company Annual Report)

- a) **Can management elaborate further on the due diligence carried out prior to the additional investment into Ellebeau?**

The reason given for the impairment was that the subsidiary corporation is projected to incur losses after the current financial year due to the “declining revenue and tougher business environment”.

- b) **Can management elaborate further on the “tougher business environment”? Was it possible to foresee the extent of the “tougher business environment” at the beginning of the financial year before the injection of \$400,000?**

- c) **How much more is the group committed to invest in Ellebeau? Has the board reviewed Ellebeau’s business plans and its long-term potential?**

Q3. In Note 19 (page 57 – Convertible bonds), it was disclosed that:

“During the financial year ended 31 March 2017, the ELN Subscriber has subscribed for additional \$1,000,000 Convertible Bonds.”

The “ELN Subscriber” refers to Advance Opportunities Funds which had subscribed to the 1% unsecured equity linked redeemable structured notes (ELN) in 2013. The 2013 ELN programs had matured and expired on 18 December 2016.

Because of the Floating conversion price embedded in the terms of the ELN, the subscriber is entitled to convert the notes into shares at a discount of 20% to the average of three consecutive Closing Prices per Share as selected by the Subscriber during the forty five Business Days immediately preceding the Conversion Date.

A conversion of the Seventh sub-tranche of Tranche 1 Notes in the aggregate amount of s\$500,000 (dated 21 October 2016) is shown below.

The Floating Conversion Price of S\$0.004 was determined by taking 80% of the average of three (3) consecutive Closing Prices per Share as selected by the Subscriber during the forty five (45) Business Days immediately preceding the Conversion Date (i.e 21 October 2016). The three (3) consecutive Closing Prices per Share selected are as follows:

	Share Price	Date
X	S\$0.005	3 October 2016
Y	S\$0.005	4 October 2016
Z	S\$0.005	5 October 2016
Floating Conversion Price	= $\frac{X + Y + Z}{3}$	x 0.80
	= 0.004	

(Source: Company announcement dated 21 October 2016)

Following the conversion by the subscriber on 21 October 2016, the subscriber then proceeded to disposed of the new shares at prices above the conversion price via market transactions and/or via off-market transactions. On the same day (21 October 2016), the subscriber sold 13,444,158 shares for \$94,109.10 or about \$0.007.

- a) **As the 2013 ELN programs have matured and expired, can shareholders get a commitment from the company/board that it would not consider the issue of any more ELN notes with floating conversion terms that are hugely dilutive to existing shareholders?**