Issuer: EuroSports Global Limited
Security: EuroSports Global Limited

Meeting details:
Date: 28 July 2017
Time: 2.00 p.m.
Venue: East India Rooms, Level 1, Raffles Hotel Singapore, 1 Beach Road, Singapore 189673

Company Description

EuroSports Global Limited distributes and retails automobiles. It operates through three segments: Automobiles Distribution, Experiential Business, and Watches Business. The company retails new ultra-luxury and luxury automobile brands, as well as pre-owned automobile brands comprising Lamborghini, Pagani, Alfa Romeo, and Touring Superlegerra. It also provides after-sales services comprising maintenance and repair, and grooming services, as well as breakdown assistance services; and retails and sells automobile parts and accessories. In addition, the company is involved in the rental and leasing of private cars with and without operator, as well as trade of related merchandise under the Ultimate Drive name. Further, it distributes and retails luxury timepieces and related accessories under the deLaCour brand in Singapore, Malaysia, Indonesia, Thailand, and Brunei. The company was founded in 1998 and is based in Singapore.
(Source: http://www.sgx.com/wps/portal/sgxweb/home/company_disclosure/stockfacts?code=5G1)

Q1. As seen from the Financial highlights (page 20 of the annual report), the group's revenue fell $63.5 million in FY2016 by 17.5% to $52.4 million in FY2017. Gross profit had slid to $5.5 million in FY2017, a drop from $8.1 million in the previous year. The gross profit margin for the past 5 years is shown in the table below.

	Gross profit margin
FY2017	10.5%
FY2016	12.8%
FY2015	18.3%
FY2014	22.1%
FY2013	19.9%

(Source: Company annual reports)

In the recent years, the group has ventured into different products and services such as AutoIn EuroSports, Ultimate Drive EuroSports and Exquisite Marques.

a) **Given that gross profit margin has shrunk from over 20% to 10.5%, what are management's plan to reverse the erosion of margin? Would the new ventures provide the group with the necessary profit margin?**

b) **During the due diligence process, what have been management's projections for the profitability of these new ventures and have they been met?**

With the termination of the Suntec showroom, the group is expected to move into the new Leng Kee showroom. The group has reported losses of $(4.0) million in FY2015, $(4.5) million in FY2016 and $(7.9) million in FY2017.

c) **What are the start-up costs expected for the new Leng Kee showroom?**

d) **Has management worked out the required sales from Lamborghini and Alfa Romeo from the new showroom to justify the operating costs and the investment into the new showroom?**

From the Statements of Financial position (page 61), the group's total equity has dropped from $20.5 million in FY2016 to $12.5 million in FY2017. Net debt is $24.5 million and the group has a debt-to-adjusted capital ratio of 1.95 (page 91 – Note 18: Share capital). It was further added that management "does not set a target level of gearing but uses capital opportunistically to support its business and to add value for shareholders".

e) The group's current debt-to-adjusted capital ratio is 1.95. **Has the board looked at setting a limit to the level of gearing?**

Q2. In Note 28 (page 104 – Events after the end of the reporting year), it was disclosed that the company announced on 19 June 2017 that it had incorporated and subscribed for ordinary shares representing 51% equity interest in a company, Prosper Auto Pte. Ltd.

In the announcement, the company disclosed that Prosper Auto will carry on the business of distribution of automobiles, parts and accessories in Indonesia.

a) **What kind of feasibility study has been carried out to ensure that the market entry strategy for Indonesia is reasonably sound? How familiar is management with the Indonesian market?**

b) **What is the intended scale of operations for Prosper? Will Prosper be positioned to serve the high-end luxury/ultra-luxury automotive segment in Indonesia?**

c) How much has the company set aside to invest in Prosper/the Indonesian market?

Q3. In April 2017, the company has “entered into a non-binding memorandum of understanding to acquire Hong Kong-based SS Ventures Limited (“SS Ventures”), which is principally engaged in the development, improvement and maintenance of a comprehensive and user-friendly online solution for taxi hailing services (page 12).

Notwithstanding the fact that ride-hailing market is dominated by huge global players, in the announcement titled “Non-binding memorandum of understanding” dated 15 February 2017, the proposed acquisition values the target at a valuation of US$30 million at the first stage of the acquisition. In the second stage of the proposed acquisition, the company will buy an additional 10% stake at a valuation of US$50 million within 6 months from the date of the definitive agreement. In the MOU, the company will have the right but not the obligation to buy up to 100% of the target at a valuation of US$100 million.

a) Can management help shareholders understand how synergistic is SS Ventures with the current businesses of the group?

b) What due diligence did management carry out to justify the valuation of between US$30 million and US$100 million?

The group has reported losses for the past three financial years and has total current liabilities of $40.3 million and current assets of $9.4 million (excluding inventories) as at 31 March 2017.

c) Has the board considered if it would be prudent for the group to invest into a mobile-app startup with the current balance sheet and the challenging conditions in the core business?

d) In the view of the board, how strong is the group’s current financial position?