

Issuer: Datapulse Technology Limited

Security: Datapulse Technology Limited

Meeting details:

Date: 9 November 2017

Time: 3.00 p.m.

Venue: Singapore Swimming Club, Meyer Room, Level 2, 45 Tanjong Rhu Road, Singapore 436899

Company Description

Datapulse Technology Limited manufactures and sells media storage products for content distribution in Singapore, 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. The group’s mission is “[t]o stay as a leading total solutions provider of digital storage media by adding value to our customers using the latest technology with the highest level of reliability and quality at the most competitive prices.”

The challenges in the digital storage media are well documented. In fact, in the company’s annual reports over the years, the following has been said in the Letter to Shareholders:

Annual Report	Remarks
2017	<i>The Group’s media storage products and services business continued to face a challenging operating environment in FY2017.... In addition, the increased use of other substitute modes of content distribution, intense competition from global players over shrinking customer base and increased volatility in demand present multifaceted challenges for the Group while our investments in Blu-Ray technology has yet to gain meaningful traction in cushioning the decline in sales of our CD and DVD products and services.</i>
2016	<i>The Group’s digital storage products and services business continued to face a challenging operating environment in FY2016. The increased use of other substitute modes of content distribution, intense competition from global players over shrinking customer base and increased volatility in demand present multifaceted challenges for the Group while our investments in Blu-Ray technology has yet to gain meaningful traction in cushioning the decline in sales of our CD and DVD products and services.</i>
2015	<i>The operating environment of the Group’s media storage products and services business continues to be challenging in FY2015. Increased use of other substitute modes of content distribution coupled with intense competition from global players, increased volatility in demand and shrinking customer base present multifaceted challenges for us while our investments in Blu-Ray technology has yet to gain meaningful traction in cushioning the decrease in sales of our CD and DVD products and services.</i>
2014	<i>The operating environment of the Group’s media storage products and services business was very challenging through FY2014. The Group faced multifaceted challenges from falling demand for physical media due to increased use of other substitute modes of content distribution, intense competition from global players, increased volatility in demand and shrinking customer base while our latest Blu-Ray investment had yet to gain meaningful traction in cushioning the drop in sales of our existing products and services.</i>
2013	<i>In recent years, the operating environment of the Group’s media storage products and services business has become increasingly challenging and volatile due to greater use of non-media forms of content distribution and keener competition from global players over declining customer base and market size.</i>

(Source: Company annual reports)

The group has recorded a decline in sale of goods since FY2012.

- a) **As the board’s roles include providing entrepreneurial leadership and setting the overall corporate strategy and directions of the group, would the board like to tell shareholders what guidance it has given to the group to overcome the “challenging operating environment” in the core business? Specifically, what is the long term prospect of the physical media business?**

- b) Given that the investment in Blu-Ray technology has “yet to gain meaningful traction” since 2014 and that there is greater use of non-media forms of content distribution, is the group still banking on Blu-Ray with the hope that Blu-Ray related sales will replace the drop in sales of CD and DVD products and services?**

Revenue dropped by 45.6% to \$12.7 million “due to weaker demand for media storage products and services during the year”. While the group reported a profit of \$3.0 million in 2017, the disposal of One Global Inc contributed a one-time gain on disposal of \$5.6 million. Looking at Note 20 (page 78 – Earning per share), the continuing operations reported a profit/(loss) attributable to ordinary shareholders of \$(2,604,957) in 2017.

- c) Given that the revenue in the core business has dropped since 2012 and that the core business has reported a loss of \$(2.6) million in 2017, would the board consider the need for a strategic review of the group’s core business?**

Q2. On 19 October 2015, the group announced that it had subscribed for 20 ordinary shares in the capital of Goldprime Realty Pte Ltd (“Goldprime”), representing 20% of the entire paid-up share capital of Goldprime. It was disclosed that Goldprime is in the business of investment holding and real estate development.

A \$2.9 million unsecured and interest-free shareholder loan was made to Goldprime in FY2016. As disclosed in the Letter to Shareholder (page 3), the group disposed of its 20% interest in Goldprime for a consideration of \$35,000 on 17 February 2017 and the shareholders’ loan was fully repaid during the year.

- a) Can the board account for the investment in Goldprime in 2015 and the seemingly abrupt exit during the financial year? Please provide specific reasons to account for the disposal of Goldprime.**
- b) Can shareholders understand how the investment in Goldprime fitted in with the group’s strategic growth plans? Did the board approve the initial investment in 2015? Does the group have a mandate to carry out property development?**

It was also disclosed that the group has entered into a sale of its Tai Seng property at a consideration of \$53.5 million while buying an industrial property located in Toa Payoh for a consideration of \$10.5 million.

- c) Will the new Toa Payoh property be sufficient for the group’s current scale of operations? Is there excess space that can be tenanted out or be available to support further growth?**
- d) Given that the sale of the Tai Seng property and the purchase of the Toa Payoh property may result in a net cash inflow of more than \$40 million, has the board evaluated how it could use the net proceeds?**

Q3. As noted in the Corporate Governance Report (page 14), Mr Hee Theng Fong and Mr Hilary Quah Lam Seng have served on the Board for more than nine years from the date of their first appointment.

Mr Hee Theng Fong was appointed as a Director in January 1994 and Mr Hilary Quah Lam Seng was appointed as a Director in October 1999. Mr Hee and Mr Quah have served on the board for more than 23 years and 18 years respectively.

As required by the Code of Corporate Governance 2012 (CG Code), the board has subjected the independence of the long tenured directors to a particularly rigorous review.

- a) Can the board elaborate further on the particularly rigorous review?**

Notwithstanding that the board considers Mr Hee Theng Fong and Mr Hilary Quah Lam Seng to be independent, Guideline 2.4 of the CG Code requires the board to “also take into account the need for progressive refreshing of the Board”.

- b) Can the company tell shareholders its plans for the progressive refreshing of the board, as required by Guideline 2.4 of the CG Code?

A copy of the questions for the Annual Report for the financial year ended 31 July 2016 could be found here:

<https://sias.org.sg/qa-on-annual-reports/?company=Datapulse%20Technology%20Ltd>

The company's response could be found here: -----