Securities Investors Association (Singapore)
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UEN No: S99SS0111B
GST Reg No: M90367530Y

Issuer: GDS Global Limited

Stock code: 5VP

Meeting details:
Date: 21 January 2022
Time: 10.00 a.m.

Due to the current COVID-19 pandemic, SIAS encourage shareholders to participate at AGMs via other means and not to attend any AGM physically. Where the AGM is webcast, they can stay on top of their investments by watching the webcast and submitting their question to the company in advance. Senior citizens should avoid attending AGMs altogether and stay home.

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Q1. As noted in the chairman's message to shareholders, the financial year ended 30 September 2021 has been extremely challenging for the group. Demand for the group's products has been impacted by project delays and the group was faced with manpower shortages, higher wages and raw material costs, material shortages and long delivery lead times.

Losses in FY2021 and FY2020 amounted to $(1.6) million and $(1.15) million respectively. One bright spark for the group is the progress made in R&D and product enhancements to better cater to market needs. Some of these examples are the second-generation Insulated Fire Roller Shutters ("IFS-2G"), Storm Shutter and blast mitigating/resistant shutter.

The financial highlights can be found on page 7 of the annual report. A 6-year overview is shown below:

	FY2021	FY2020	FY2019	FY2018	FY2017	FY2016
Income Statement (S$'000)						
Revenue	12,991	14,282	14,260	17,744	23,878	25,051
Gross profit	3,921	4,443	4,244	5,434	9,012	11,381
Net (loss)	(1,604)	(1,148)	(1,764)	(631)	904	2,740
Gross profit margin (%)	30.2	31.1	29.8	30.6	37.7	45.4
Net (loss) margin (%)	(12.3)	(8.0)	(12.4)	(3.6)	3.8	10.9
Balance Sheet (S$'000)						
Total assets	26,483	29,374	20,562	23,561	25,905	28,712
Total liabilities	12,323	13,421	2,569	2,938	3,785	6,351
Total equity	14,160	15,953	17,993	20,623	22,120	22,361
Cash and cash equivalents	8,775	9,193	8,314	10,162	9,816	10,084
Cash Flows (S$'000)						
Operating cash flows	1,018	2,931	(905)	1,400	3,730	4,406
Capital expenditure	(137)	(112)	(139)	(158)	(1,853)	(891)
Per Share Information (Singapore cents)						
(Loss) per share	(1.71)	(1.31)	(1.91)	(0.89)	0.54	2.53
Net asset value per share	10.99	12.69	14.54	16.97	18.37	18.63
Dividend per share	-	-	0.3	0.5	0.5	0.8
Market Capitalisation (S$'000)[1]	7,504	9,296	39,200	28,000	33,600	33,600

(Adapted from company annual reports 2021 and 2018)

The decline in revenue was observed even prior to the COVID-19 pandemic. The group reported net losses in the past 4 financial years. NAV per share has decreased from 18.63 cents in FY2016 to 10.99 cents in FY2021.

(i) **Can management (re)state its business model and help shareholders understand its competitive advantages?**

(ii) **What is the group's estimated market share in Singapore? Has it been able to consolidate its leadership and gain market share? If not, has management carried out a review of the market needs, the group's competitiveness and its value proposition?**

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(iii) **With the group's pivot to exports, how does management market the group and its products to acquire new customers? Has the pandemic made the shift to the export market more challenging? If so, how is management overcoming these challenges?**

(iv) Based on Note 31 (page 122 – Segment information), revenue from Singapore and Europe amounted to $7.1 million and $4.6 million respectively in FY2021. In the past 5 years, revenue from Europe has held steady and ranged from $4.2 million to $5.1 million range (average of $4.5 million) while revenue from Singapore decreased from $15.3 million in FY2017 to $7.1 million in FY2021. **Can management help shareholders reconcile the group's steady performance in Europe and the declining sales in Singapore?**

(v) **Capital expenditure:** The group's capital expenditure in the past 4 years have averaged just $137,000 per year while depreciation has been substantially higher (page 80 – Consolidated statement of cash flows). In particular, the carrying amount of machinery and equipment stood at $1.24 million as at 30 September 2021. For reference, the carrying amount of machinery and equipment as at 30 September 2017 was $2.3 million. **Can management help shareholders understand if it has kept up with the capital investment to maintain the group's competitiveness? What are the major capital expenditure required in the next 18-24 months?**

(vi) **Research and development ("R&D"):** It is noted in the chairman's message to shareholders that the group has used this lull period to focus on R&D and product enhancements to better cater to evolving market requirements. **Can management briefly explain the group's R&D framework and process (e.g. in-house or external R&D team, headcount, areas of expertise/competency)?**

Q2. The group's 51% owned Grimm Industries Pte Ltd has remained profitable in the past 5 years. Grimm trades on production components which include engineering and machinery tools, hardware, industrial metal parts and fixtures.

(i) **How synergistic is Grimm's operations with the group's major operating subsidiaries in the core business?**

(ii) **Is management looking to increase the scale of the production components business?**

(iii) **Is Grimm able to expand into the export market?**

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Q3. At the annual general meeting scheduled to be held on 21 January 2022, Ms Pebble Sia Huei-Chieh will retire by rotation in accordance with Regulation 114 of the company's constitution, as director of the company and would be seeking her re-election.

The profile of the director can be found on page 11 of the annual report. Additional information on directors seeking re-election can be found on pages 61 to 66. Ms Pebble Sia Huei-Chieh was first appointed to the board on 21 March 2013. Ms Pebble Sia Huei-Chieh will be seeking a two-tier vote by shareholders on her continued appointment as an independent director.

(i) **Has the nominating committee (NC) reviewed the overall desired competency matrix of the board and identified any gaps in skills or competencies that could be addressed in future director appointments?**

(ii) **Would the proposed re-election of Ms Pebble Sia Huei-Chieh delay the board's progressive renewal (Principle 4 of the Code of Corporate Governance 2018)?** On 30 November 2021, Mr Tan Boon Gin, chief executive of Singapore Exchange Regulation, gave guidance that companies are expected to use the two-tier rule sparingly to promote renewal and succession planning[1].

^On 1 October 2020, the Accounting and Corporate Regulatory Authority ("ACRA"), the Monetary Authority of Singapore ("MAS") and Singapore Exchange Regulation ("SGX RegCo") published an updated checklist to guide listed entities on the conduct of general meetings arising from the latest updates from the Multi-Ministry Taskforce.

Issuers may continue to conduct their general meetings held on or before 30 June 2021 via electronic means, and are encouraged to do so. On 9 April 2021, it was announced that the alternate arrangements for meetings ("Meetings Order") would be extend beyond 30 June 2021 until it is revoked or amended by the Ministry of Law. Accordingly, until such time, issuers may continue to utilise the Checklist issued by ACRA, MAS and SGX RegCo to guide entities on the conduct of their general meetings.

Issuers who, after due consideration of public health and other risks, wish to provide for physical attendance at their general meetings must ensure that they implement all relevant measures to comply with the safe management measures imposed by the Singapore Government.

Shareholders are welcome to use and/or adapt the questions prepared by SIAS and to forward them to the company.

[1] https://www.businesstimes.com.sg/companies-markets/answer-my-question-before-i-vote-sgx-regco-sets-new-timelines-for-companies-to

^ Guidance on the Conduct of General Meetings Amid Evolving COVID-19 Situation (https://www.sgx.com/media-centre/20201001-guidance-conduct-general-meetings-amid-evolving-covid-19-situation)

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