

DATAPULSE TECHNOLOGY LIMITED
(Incorporated in the Republic of Singapore)
(Company Registration No: 198002677D)

GENERAL UPDATE ANNOUNCEMENT

It has come to the attention of the board of directors (“**Board**”) of Datapulse Technology Limited (the “**Company**”) that there may be certain views or allegations relating to recent actions of the Company and the Board expressed or circulated by the media and other parties which may be inaccurate, misleading or result from a misunderstanding of the relevant facts or circumstances, and the Board would like to take the opportunity to make a brief clarification of the same, so Shareholders are not unduly prejudiced by such views or allegations.

1. The Board did not act improperly with regard to the acquisition (“Acquisition”) of Wayco Manufacturing Sdn Bhd (“Wayco Manufacturing”)

a. It is inaccurate that the Board acted with undue haste in the Acquisition.

The Board’s decision to acquire Wayco Manufacturing was mainly driven by the poor financial performance and prospects for the Company’s existing business, the uncertainty over the status of the Company’s manufacturing activities, and the potential risk of the Company being deemed a cash company if the Company ceases to have any operating business.

The Company’s revenue declined by 31% for its 1QFY2018 financial results even though the first quarter of its financial years has historically been the best quarter in terms of revenue and profit, and the Company also had to recognize an impairment loss of S\$1.4 million during the quarter taking into consideration, *inter alia*, the anticipated contributions from certain of the Company’s manufacturing activities.

Moreover, with the impending completion of the disposal of the Company’s property at Tai Seng Drive, save for its investment in Wayco Manufacturing, the Company may also be faced with the prospect of not having any operating business left if it does not manage to find alternative premises to relocate its manufacturing activities to, as further elaborated below.

This places the Company at risk of being deemed a cash company under the listing rules, which has material adverse implications for the Company and its shareholders (“**Shareholders**”), as further elaborated below.

The acquisition of Wayco Manufacturing allowed the Company to make an immediate investment in a currently profitable business, to augment and diversify from the Company’s existing business.

b. It is inaccurate that the Board decided to acquire Wayco Manufacturing without having done due diligence on the asset.

Although the share purchase agreement for the Acquisition was signed one day after the Board’s appointment, in actual fact, Board members were already introduced to the vendor of Wayco Manufacturing (“**Vendor**”) and furnished with information relating to, amongst others, the past financial performance of Wayco Manufacturing and the list of trademarks held by Wayco Manufacturing about two weeks prior to their appointment to the Board, so they did have sufficient opportunity to review and consider before deciding to undertake the transaction.

The Company’s approach taken in relation to due diligence on Wayco Manufacturing was a considered decision, with the Board having taken the necessary steps to safeguard the Company’s interests, *inter alia*, by obtaining the Buyback undertaking from the Vendor, and having to take into account certain commercial considerations, as further elaborated below:

- The timing for the completion of the Acquisition came about in part because the Vendor had requested the Company to complete the Acquisition earlier, and the Board did not

want to lose the opportunity to acquire Wayco Manufacturing due to the Company not being able to accede such request of the Vendor.

- The Company had obtained the Buyback undertaking from the Vendor, giving the Company the opportunity to sell back Wayco Manufacturing to the Vendor at the same price, assuming the Company were to discover irregularities or deficiencies or other material adverse events affecting Wayco Manufacturing within one year after taking over the company, which should generally put the Company in the same position it would have been in had it conducted prior due diligence, and decide not to complete due to unsatisfactory due diligence.

c. *The Board had duly deliberated on the purchase consideration for the Acquisition*

The Board had duly deliberated on the purchase consideration for the Acquisition and in agreeing to the same, had taken into consideration, *inter alia*, the following considerations:

- close to approximately 70% of the revised purchase consideration amount of S\$3,433,760 was underpinned by the value of the three real properties owned by Wayco Manufacturing (after taking into account the amount of RM 200,000 that the Vendor had to pay the Company for the shortfall between the independent valuation of such properties and the parties' agreed valuation of such properties); and
- certain of Wayco Manufacturing's assets such as plant and machineries have been almost fully depreciated and Wayco Manufacturing has intangible assets, including registered trademarks and product formulations which have not been reflected in its book value.

In view of the foregoing, to question the *bona fide* of the Board's decision based on the sole factor of the high multiple based on historical profits represented by the purchase consideration amount may be incomplete and misleading.

The Board will be providing Shareholders with further information on the business of Wayco Manufacturing and the haircare industry in general in due course, but just to briefly highlight some salient points for consideration as follows:

- Wayco Manufacturing's products are sold under longstanding and well-established household brands including the "GoodLook" and "Glorin" line of hair products, which have gained a loyal following due to their traditional brand presence, and good product formulations or specifications, which are owned by Wayco Manufacturing.
- Wayco Manufacturing's products are currently sold mainly in Singapore and Malaysia, although it also has a market presence, to a lesser extent, in Hong Kong, Vietnam, Myanmar, Sri Lanka, India, Maldives, Taiwan and Philippines.
- The Board is of the view that there may be opportunities to scale up the sale of such products, considering comparable peers and direct competitors such as Brylcreem, Ginvera, Follow Me, and even more successful players such as Gatsby.
- Currently, most of Wayco Manufacturing's products are marketed and distributed in neighbourhood general stores, mini-marts, convenience stores, super market, departmental stores, and neighbourhood saloons. They are also available through e-commerce platforms.
- While Wayco Manufacturing's products are currently marketed and distributed mainly through Way Company Pte Ltd. (for Singapore) and, to a lesser extent, through Wayco Trading (M) Sdn Bhd (for Malaysia), such wide mass market distribution networks are not difficult to develop and Wayco Manufacturing could consider developing its own sales and distribution capabilities in lieu of or in addition to its existing arrangements with Way Company Pte Ltd. and Wayco Trading (M) Sdn Bhd, although the set up costs in relation to the same may be significant.

In view of the above, the Company has appointed Ernst and Young Solutions LLP, to conduct a strategic review to advise the Company on the options available for Wayco Manufacturing to develop its sales and distribution capabilities ("**Strategic Review**").

Such options may include, *inter alia*, a possible acquisition of the Vendor and Wayco Trading Sdn Bhd if it may be commercially sensible to do so, and in any event will be subject to, *inter alia*, Shareholders giving their approval for the Proposed Business Diversification (as defined below), and compliance with relevant laws and listing rules.

d. *The acquisition of Wayco Manufacturing is not precluded by the pre-existing relationships or ties between the controlling shareholder, the shareholder of the Vendor and the CEO/Executive Director*

There is nothing in the applicable laws or listing rules that precludes the Acquisition from being made by reason of the pre-existing relationships or ties between with the Company's controlling shareholder (Ms Ng Siew Hong), the shareholder of the Vendor (Mr Ang Kong Meng) and the CEO/Executive Director of the Company (Mr Kee Swee Ann).

While Ms Ng and Mr Ang has certain past and current business relationships or ties, the Board has taken steps to confirm that they are not "associates" as defined under the listing rules, and Mr Kee's role as CEO/Executive Director does not require him to be independent of, or unacquainted with the controlling shareholder or persons who may be her business associate/partner.

More importantly, although the Vendor and its shareholder was introduced to the Board by Ms Ng and Ms Ng was of the view that Wayco Manufacturing was a suitable target for investment by the Company, the Board did not form its decision to make the Acquisition (or the terms on which it was made) purely based on the direction of the controlling shareholder, but took into consideration the interests of the Company and Shareholders.

2. The Board is acting with the interests of the Company and Shareholders in mind, rather than the controlling shareholder or her allies

The Board is of the view that time is of the essence for the Company to acquire a new business given the poor financial performance and prospects for the Company's existing business, the uncertainty over the status of the Company's existing business, and the potential risk of the Company being deemed a cash company if the Company ceases to have any operating business, and this has underpinned the recent actions taken by the Board, including the Acquisition and plans to hold an extraordinary general meeting ("**EGM**") for Shareholders to consider, and if deemed fit, to approve the proposed business diversification into the proposed consumer business and proposed investment business ("**Proposed Business Diversification**"), rather than being driven by any motives of benefiting the controlling shareholder or her allies.

a. *Poor financial performance and prospects for the Company's existing business*

Since its listing in 1994, the Company has been engaged in the manufacturing of media storage products, namely, CD, DVD and Blu-ray products, where the last category of Blu-ray products was added to the Company's product line around 2013.

Major technological advances and changes, such as the way music/entertainment/media is consumed or stored, the shift to Cloud computing and storage of data, has severely affected the outlook of the media storage industry, and the Company's financial performance has been deteriorating rapidly in recent years as a result of such challenges.

As an illustration of this, the recent impairment loss of S\$1.4 million recorded in the Company's 1QFY2018 financial results was due to impairment taken on the Company's plant and equipment relating to its Blu-ray production facilities. Such impairment was required, *inter alia*, due to the unsatisfactory revenue contribution from the capital investment made for such production facilities.

In view of the foregoing, the Board is of the view that it is not viable or sustainable for the Company to continue with its existing business as the sole or primary core business, and the Company must look for other new core business(es) to diversify into as a current immediate priority.

b. *Uncertainty over the status of the Company's existing business*

Completion of the disposal of the Company's property at 15A Tai Seng Drive, a move which was initiated under the previous board and management, is now fixed for 31 January 2018.

There is no guarantee on how soon the Company will be able to secure an alternative site to relocate and restart operations, and in the event of an extended delay and/or lack of viability in doing so, the Company may be faced with the prospect of not being able to continue with its existing business.

c. *Potential risk of the Company being deemed a cash company under the listing rules*

Pursuant to Rule 1303(2) of the Listing Manual, the Exchange may suspend trading of the listed securities of a listed issuer where there is a change in the issuer's assets that produces a situation where its assets consist wholly or substantially of cash or short-dated securities.

There is a possibility that the Company may be deemed a cash company if it has no other operating business apart from its investment in Wayco Manufacturing.

If the Company is deemed a cash company, under the listing rules, the shares of the Company may be suspended from trading, and there is a possibility that the Company may be subject to delisting if it is unable to meet the requirements for a new listing within 12 months from the time it becomes a cash company.

d. *Shareholders' interests are not served by not having the opportunity to be presented with a proposed business diversification strategy for consideration and approval*

There have been some demands or suggestions from some quarters, including under the requisition notice dated 26 December 2017 received from Uniseraya Holdings Pte Ltd and Ms Ng Bie Tjin @ Djuniarti Intan that the Company should not be allowed to put forward to Shareholders any diversification proposal, *inter alia*, until a complete feasibility study has been done in relation to the same.

As previously announced, the Board plans to convene the EGM to seek Shareholders' approval for the Proposed Business Diversification and Shareholders can decide then whether to approve or reject the Proposed Business Diversification, *inter alia*, depending on what is to be presented to them on the nature and scope of the Proposed Business Diversification, and how the Board intends to address or mitigate some of the issues or risk factors relating thereto.

To deprive Shareholders of having an opportunity to be presented with, and to consider the Proposed Business Diversification at all, however, would surely not be in the interests of Shareholders, in view of the considerations mentioned above, such as the poor financial performance and prospects for the Company's existing business, the uncertainty over the status of the Company's existing business, and the potential risk of the Company being deemed a cash company if the Company ceases to have any operating business.

Indeed, the Board is of the view that any board of directors who chooses to take no action or drag their feet in taking action in the face of the possible adverse implications of the Company being deemed a cash company may well be remiss in the discharge of their fiduciary duties.

e. *Implementation of Proposed Business Diversification strategy*

There have been comments raised, *inter alia*, questioning whether the Board may have a proven strategy and process to find and manage the best acquisition available for the Company and Shareholders and whether the Board has the ability or experience to make good investment

decisions, and whether the Company may go on to consider acquisitions of other companies owned by the shareholder of the Vendor.

From a business perspective, the Board is of the view that the acquisition of Wayco Manufacturing, or for that matter, other companies which may be owned by the Vendor or its shareholder, can and should be considered so long as, *inter alia*, such acquisition can be justified as an arms-length commercial transaction, is within the ambit of its business mandated by Shareholders, and complies with relevant laws and listing rules.

This is especially so if such business(es) has the potential of delivering attractive profits or returns to the Company and Shareholders, hopefully with no need to impair for losses on capital commitments or investments, and able to provide a return on investment of more than S\$100,000 over a three-year period^[1].

Note [1]: In 2003, the Company invested S\$2,000,000 in Raffles Campus Pte Ltd, a company in which a then independent director of the Company had a shareholding interest in, which was subsequently disposed of in 2006 for S\$2,100,000.

f. Proper internal controls in relation to the Company's funds

The Board is mindful of its responsibility to ensure that there are proper internal controls in relation to the utilisation and safeguarding of the Company's assets:

- (i) Even though Wayco Manufacturing is now a subsidiary of the Company, to limit the Company's financial exposure, the Board had directed and instructed management not to provide any funding for Wayco Manufacturing or its business pending Shareholders' approval to be obtained for the Proposed Business Diversification.
- (ii) The Board intends to place the net sale proceeds arising from the completion of the disposal of the Tai Seng Drive property in a separate designated account where, apart from the payment for the proposed special dividend, any utilisation of the remaining net sale proceeds has to be approved by the Audit Committee and has to be for the purpose of or in connection with the furtherance of the core business(es) of the Company to be approved by Shareholders.

In conclusion, the Board would strongly urge all Shareholders to focus on the true issue at hand, which is to decide on a new business for the Company in view of the potential adverse implications for the Company and Shareholders if the Company were to be otherwise deemed a cash company under listing rules, and the Board would also like to take this opportunity to remind all stakeholders that any attempt to block or distract Shareholders from this issue does not serve the interests of the Company and Shareholders.

BY ORDER OF THE BOARD

Lee Kam Seng
Chief Financial Officer and Company Secretary

30 January 2018