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Datapulse Technology's disclosures about its operations throw up more questions than answers

By Mak Yuen Teen

ON Sep 28, Datapulse Technology convened an extraordinary general meeting (EGM) to seek shareholders' approval to dispose of its property in Tai Seng Drive for S$53.5 million. The EGM circular disclosed that the property is currently used for the Group's manufacturing activities and that it was concurrently looking to relocate to a building which is more appropriate for its current manufacturing activities. On the face of it, this sounds perfectly sensible.

On Jul 31, the company announced that it had granted an option to the purchaser and said that it had on Jul 13 applied to SGX for a waiver to seek prior shareholder approval for the grant of the option. SGX had approved the application on Jul 21 and told the company to announce the waiver. Datapulse did not do so until 10 days later. Completion was expected some time from Nov 30 and vacant possession must be delivered no later than Dec 31, 2017.

On Aug 7, the company announced the proposed purchase of an industrial property at Toa Payoh for S$10.5 million, subject to JTC granting approval for the sale and assignment to the company of the unexpired term of the lease, and for the use of the property for the manufacture of media storage products. On Sep 4, it announced an extension of the option to purchase and on Sep 16, it announced that it had exercised its option.

Shareholders were in for a shock on Nov 14 when the company announced the termination of the option to purchase. It disclosed that it had on Sep 4 and Sep 22 received letters from the National Environment Agency (NEA) – not JTC as announced earlier – rejecting its application for change of use. It did not announce this material fact until the termination announcement, only mentioning in earlier announcements that the purchase was subject to conditions precedent. The two rejection letters from NEA were received before the EGM on Sep 28. Did the company disclose to shareholders at the EGM that the purchase of the Toa Payoh property was at significant risk of falling through when it sought shareholders' approval to sell its Tai Seng Drive property?

On Nov 14, Datapulse announced that it had been notified by Ng Cheow Chye, its deputy chairman, CEO and substantial shareholder, that he had disposed of his entire stake of 48.9 million shares (22.3 per cent) through an off-market transaction at a price of 55 Singapore cents per share. It later announced that the sale agreement was entered on Nov 10 and completed on Nov 22. The buyer is not related to Mr Ng and his family and he does not know the buyer.

On Nov 10 – the date of the sale agreement – Datapulse's closing share price was 36 cents per share. Based on its latest full-year financial statements, its net book value per share was 22.8 cents. The pro forma net tangible asset per share after the proposed disposal of the Tai Seng Drive property as disclosed in its circular is 41.24 cents. Whatever the benchmark, the buyer was paying a substantial premium for Mr Ng's shares based on an agreement struck four days before the company announced the termination of the option to purchase the Toa Payoh property and when the board would have been aware of the two rejection letters from NEA.

On Nov 18, Datapulse responded to SGX's two queries on the termination of the option to purchase. One of those queries asked about the impact on the company's manufacturing activities and the company's plans, given the option to dispose of its existing property has been exercised. The following is the company's response:

"The Management is currently considering ceasing its manufacturing activities and exploring other business and investment opportunities. The Company does not expect a material impact to the Company's financial position if it ceases the Company's manufacturing activities as that part of the business is currently loss-making. In the event that the Management decides to continue the Company's manufacturing activities and alternative premises cannot be secured prior to the completion of the proposed disposal, there will be some disruption to the Company's manufacturing activities. However, the financial and business implications will not be material."

From its actions and disclosures, it is clear that the company had every intention to continue its manufacturing activities, for which it had signed and exercised an option for a new property. Its full-year financial results and press release of Sep 21 also clearly signalled its plan to continue in manufacturing. Its U-turn about ceasing its manufacturing activities appears to be caused by its probable inability to secure alternative premises after selling its existing property.

Given the events that have transpired, shareholders deserve answers to the following questions:

■ Why did the board decide to grant the option to sell the existing property which can be exercised before it had secured the alternative property for its manufacturing?

■ Why did the company only announce SGX's waiver for shareholders' approval of the option to dispose of the property 10 days after SGX's approval? Why did it wait until Nov 14 to disclose the receipt of the two rejection letters from NEA on Sep 4 and Sep 22 for change of use of the property to be purchased, when these are critical conditions precedent?

■ In saying that no material impact is expected from ceasing its manufacturing business because it is currently loss-making, has the board considered write-offs of manufacturing equipment, penalties for non-fulfilment of contractual obligations, redundancy payments to staff and workers, and other costs? Has the board considered the longer-term impact of such a decision especially when this is the only activity of the company?

■ Since the company is considering ceasing its manufacturing activities and exploring other business and investment opportunities, has the board considered the risk of it becoming a cash company if it is unable to secure other business and investment opportunities timely, with a possible suspension and delisting? In considering these other opportunities, the board also needs to be mindful of Management and its expertise.

Since its response to SGX's query on Nov 18, the company has not provided any further updates.

Regulators should also review the company's disclosures and transactions for compliance with listing rules and securities regulations.

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