



RESPONSE TO QUERIES BY THE SECURITIES INVESTORS ASSOCIATION (SINGAPORE)

The board of directors (the “**Board**”) of GDS Global Limited (the “**Company**”, and together with its subsidiaries, collectively the “**Group**”) wishes to announce the following in response to the queries raised by Securities Investors Association (Singapore) (“**SIAS**”) in an email on 13 January 2022.

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	29,200	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.



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

Company's Response:

GDS Global Limited is a leading specialist provider of commercial and industrial door and shutter solutions in Singapore and the Southeast Asia region, founded in 1982. We manufacture and supply an extensive range of door and shutter systems, comprising our own proprietary products and third-party products, that can be tailored to specific needs and requirements of our customers. We also provide service and maintenance works for the products supplied or installed by the Group or third parties, and is involved in the trade of production components such as engineering and machinery tools, hardware, industrial metal parts and fixtures.

We have an extensive range of products that include door systems, fire-rated shutter systems and doors for special applications which are widely used across a broad spectrum of industries such as manufacturing, retail, food processing, hospitality, health, education, aerospace, security and defence. We possess strong technical expertise, proprietary know-how and technology-based solutions, which enable us to tailor our range of door and shutter systems to the specific needs and requirements of our customers. Underscoring this technology-driven edge, GDS is the first Singapore manufacturer which can offer steel insulated fire shutters with an insulation value of up to 240 minutes, the highest required by the market. GDS also can offer globally certified UL¹ and FM² listed fire shutters. In addition, we operate one of the largest manufacturing facilities amongst industry players with an area of approximately 7,797 square metres.

- (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?

Company's Response:

There is no readily available information on market share for the industry we operate in. As part of our efforts to be market competitive, the Group conducts business reviews as well as continual research and development ("R&D") to innovate / improve our products and to stay relevant to market needs.

¹ UL LLC (Underwriters Laboratories), a global independent safety science company offering expertise including, *inter alia* product safety and verification services.

² FM Approval, a division of Factory Mutual Insurance Company, which provides third party certification of property loss prevention products and services.



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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?

Company's Response:

Insulated fire shutters are products that are regulated by authorities in countries. Having specialised in the door and shutter business since 1986, GDS has an established operating history and market reputation in the industry. As mentioned in our response to Q1(i), we are one of the few players that can offer steel insulated fire shutters with an insulation value of up to 240 minutes. GDS also can offer globally certified UL¹ and FM² listed fire shutters. Our track record and qualifications in this area are some of the reasons why customers actively seek us out. We will identify their specific needs and leverage on our significant experience and expertise to develop suitable solutions for them. This has also provided an avenue for us to present our expertise and range of regulated products and services to new and existing customers for future references.

We encountered material shortages and longer delivery lead times for our production components due to global port congestions resulting from COVID-19 restrictions and an upsurge in demand for consumer goods. These have led to volatility in the cost of labour, freight costs and materials such as steel which are beyond our control. We have been exploring ways to reduce labour content in the manufacturing process of certain products while focusing on R&D and product enhancements to cater to evolving market requirements as we look to the market to stabilise further.

- (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?

Company's Response:

The steady performance in Europe was due to repeat sales to key customers. Our performance in Singapore was largely due to the impact of COVID-19 safe management measures which resulted in slow progress in construction projects and schedule delays in some of our door and shutter systems installation projects. Strategically, the Group has taken a more selective approach towards tendering with a focus on projects with stronger operational stability and creditworthiness.



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- (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?

Company's Response:

Given the nature of our business, we invest strategically in R&D for new and innovative ways to improve our products which includes repeated product fire-testing. There is no major capital expenditure planned 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)?

Company's Response:

We believe that R&D has always been an important competitive edge for the Group. We conduct both in-house and external R&D where the external R&D is mainly technical consultancy and testing. We have a dedicated in-house R&D and product development team of four personnel with many years of experience in the shutter industry. The main responsibilities of this team include coordinating and conducting fire tests for our regulated products in Singapore and other markets, constantly keeping abreast of new concepts and enhancing products through innovation.

- 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?

Company's Response:

The Group acquired Grimm to leverage on its expertise and network to procure proprietary components that GDS needs for the manufacturing of its commercial and industrial door



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and shutter systems. The synergies for the Group include access to better quality proprietary components, increased cost savings as well as protection of Intellectual Property (IP) of the components required to manufacture doors. The Group has no plans to increase the scale of the production components business at this time as it is considered as part of the Group's component supply source. In view of this, this production components business is directly correlated to the Group's sales of door and shutter systems. Apart from supplying components to the Group, Grimm is primarily focused on sales to export markets.

- 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?

Company's Response:

Given the nature and size of the Group's business, the NC and the Board is of the view that the current competency matrix of the Board, comprising the relevant professional backgrounds such as accounting, finance and law, is an appropriate fit for the requirements of the Group.

- (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.

Company's Response:

The NC and the Board are of the view that the proposed re-election of Ms Pebble Sia does not materially delay the Group's progressive plans of Board renewal having considered her contributions, strong independence and sound judgement over the years in discharging her duties and responsibilities as an independent non-executive director.



GDS
Global Limited

GDS GLOBAL LIMITED

(Company Registration No.: 201217895H)
(Incorporated in the Republic of Singapore on 19 July 2012)

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BY ORDER OF THE BOARD

Wong Lok Yung
Chairman and Chief Executive Officer
21 January 2022

This announcement has been reviewed by the Company's Sponsor, SAC Capital Private Limited (the "Sponsor"). This notice has not been examined or approved by the SGX-ST and the SGX-ST assumes no responsibility for the contents of this notice, including the correctness of any of the statements or opinions made, or reports contained in this announcement.

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