Issuer: F J Benjamin Holdings Ltd
Security: F J Benjamin Holdings Ltd

Meeting details:
Date: 27 Oct 2016
Time: 11:00AM
Venue: Lavender Room, Orchard Hotel Singapore, 442 Orchard Road, Singapore 238879

Company Description

F J Benjamin Holdings Ltd, an investment holding company, engages in the brand building and management, and development of retail and distribution networks for international luxury and lifestyle brands in Asia. It imports, exports, licenses, distributes, and retails consumer fashion wear and accessories, home furnishings, and timepieces. The company retails and distributes luxury and lifestyle fashion brands, such as Banana Republic, Céline, Gap, Givenchy, Goyard, Guess, La Senza, Loewe, Pretty Ballerinas, Raoul, Sheridan, Superdry, Tom Ford, Valextra, and VNC; distributes timepiece brands, including Alpina, Bell & Ross, Frédérique Constant, Gc, Guess, Nautica, Superdry, Victorinox Swiss Army, and Vulcain; and creates and produces Raoul designs through points-of-sale across China, Europe, the United States, and the Middle East. As of August 25, 2016, it operated 250 stores. F J Benjamin Holdings Ltd was founded in 1959 and is headquartered in Singapore.
(Source: http://www.sgx.com/wps/portal/sgxweb/home/company_disclosure/stockfacts?code=F10)

1. On 27 September 2016, the company gave notice on the SGXNET that it had recorded pre-tax losses for the three (3) most recently completed consecutive financial years (based on the audited full year consolidated accounts); and its latest 6-month average daily market capitalisation as at 26 Sep 2016 was S$38.8 million.

Rule 1311(1) of the Listing Manual states that:

> 1311 The Exchange will place an issuer on the watch-list, under either of the following:—
>
> (1) Financial Entry Criteria
>
> Records pre-tax losses for the three (3) most recently completed consecutive financial years (based on audited full year consolidated accounts; and an average daily market capitalisation of less than S$40 million over the last 6 months.

Accordingly, the company may likely be put on the watch-list at the next review slated to be first market day of December 2016.

In the Executive Chairman's Review (page 4 of the annual report), the Chairman acknowledged that the challenges faced by the group have long been identified. In the Annual Report 2012/2013 (also the last profitable financial year for the group), the Chairman had said that "The Board and I are fully cognisant of the need to be nimble and flexible to overcome the business environment we now face". In the past three financial years, the group has reported a cumulative loss of ($56.6) million and shareholders' equity has also been cut from $131 million to $61 million. The company also recognised an impairment loss of $58.4 million in the year to write down the investment in subsidiaries to their recoverable amount.

Overall, despite being "fully cognisant of the need to be nimble", the group's retail stores remained roughly the same – 212 in FY2013, 226 in FY2014, 218 in FY2015 and 226 in FY2016. The aggregate footprint in terms of retail space did show a drop about 10% to 406,000 square feet.

> (i) **With the benefit of hindsight, can the board tell shareholders what they would have done differently in the past three years? As such, what would the strategy going-forward to turn the group around?**

If the company is put on the watch-list by the Exchange, there is a limited time frame for the company to meet the Financial Exit Criteria (which primarily is to be profitable and to have at least a market capitalization of $40 million). Since FY2013, the NTA per share has been depleted from 23.09c to 10.81c and shareholders' equity now stands at just $61 million, leaving no room for error.

> (ii) **Has the board considered if the group has the best management team to execute on the strategy? Has the composition of the Executive Committee been reviewed?** There have been many examples where incumbents find it hard to disrupt their existing business models.
>
> (iii) **What assurance do shareholders have that the group is trying its best to address the structural challenges as the indication is that the same board and the same management team will be doing more or less the same in the coming years?**

In the current Annual Report, it was the first mention of the "omnichannel strategy" by the CEO. In the past three years, there was no mention of the group's efforts in e-commerce or online shopping.

(iv) **Is the group agile enough to overcome the e-commerce threat? Has the board considered the scenario where a retail-centric business model no longer works? What about a retail-light strategy?**

2. Page 48 of the Annual Report - Director's Statement: In the opinion of the Directors,

(ii) at the date of this statement there are reasonable grounds to believe that the Company will be able to pay its debts as and when they fall due.

The cash and cash equivalent at the end of the financial year is ($5.8) million in FY2016 and ($5.9) million in FY2015, once the bank overdrafts are accounted as well.

23. BANK BORROWINGS

	Group	
	2016 $'000	2015 $'000
Current		
Bank overdrafts (Note 30)	9,274	11,442
Trust receipts and bills payable	22,163	31,782
Term loans	500	2,000
Short term loans	3,000	5,461
	34,937	50,685

(Source: Annual report 2015/16)

The group has tapped into the bank overdrafts, trust receipts and bills payable, term loans and short term loans as short-term financing. According to the disclosure in Note 23 of the Financial Statements, the interest rates (per annum) are as follows:

- Bank overdrafts: 4.10% to 9.10%
- Trust receipts and bills payable: 1.95% to 6.75%
- Term loan: 3.53%
- Short term loans: 4.18% to 4.94%

It was also disclosed that during the year, the group had "obtained waivers from the lenders from having to comply with one of these covenants." (page 95)

Please disclose the waiver.

Can the board explain its opinion the company will be able to pay its debts as and when they fall due? Is the board comfortable with the current capital management strategy? Would funding store expansion (such as the four new Marc Jacobs stores) with expensive short term funding be prudent?

3. The group has not identified the top five key management personnel of the group who are not directors of the company, despite it being one of the guidelines of the Code of Corporate Governance 2012. Instead, the company disclosed that the top five key management who are not directors of the company earned a total of $1,583,776.

Below are the immediate family members of the directors who are employees in the group:

Name	Relationship	Remuneration range
Samuel Benjamin	Son of Chairman	$300,000 to $349,999
Odile Benjamin	Wife of Executive Director, Douglas Jackie Benjamin	$250,000 to $299,999
Mavis Benjamin	Wife of Chairman	$250,000 to $299,999
Ben-Judah Benjamin (On 50% work week)	Son of Chairman	$100,000 to $149,999

As the immediate family members have remuneration packages similar to that of the top five key management, please disclose if any of the immediate family members have been included in the group of top five key management personnel.

Please also disclose the job scope of all the immediate family members.

Should any of the immediate family members who is not one of the five key management personnel draws a remuneration package that is more generous than any of the top five key management personnel, the Remuneration committee is requested to justify such remuneration practices.