

Issuer: Epicentre Holdings Limited
Security: Epicentre Holdings Limited

Meeting details:

Date: 27 Oct 2016

Time: 09:00AM

Venue: 39 Ubi Road 1, World Publications Building, #08-01, Singapore 408695

Company Description

Epicentre Holdings Limited, an investment holding company, engages in the retail of Apple brand products, and third party and proprietary brand complementary products. The company provides various Apple products, including iPod, iPad, iPhone, Macbook, Apple TV, Apple watches, and Apple care products, as well as Apple and non-Apple branded accessories; and other software products. It also offers merchandise under its own brand, iWorld. In addition, the company is involved in the provision of IT solutions to education institutions; and retail, trading, repair, and service of consumer electronics and digital lifestyle products. It operates seven EpiCentre stores in Singapore and three EpiLife stores in Singapore; and six EpiCentre stores in Malaysia. Epicentre Holdings Limited was founded in 2002 and is based in Singapore.

(Source: http://www.sgx.com/wps/portal/sgxweb/home/company_disclosure/stockfacts?code=5MQ)

Q1. The company made no mention in the annual report of the widely anticipated opening of the Apple flagship store located along Orchard Road later in the year. In many different markets, it is widely acknowledged that the introduction of Apple's direct sales business model severely undermines the resellers.

- a) **Has the board considered the challenges the group will face as a result of Apple's direct entry into the Singapore market?**
- b) **What is the expected impact on sales?**
- c) **How is management going to overcome additional competition in the already-crowded market?**
- d) **How is the group going to mitigate the impact and what are the plans to guide the group back to profitability?**

Q2. The group has total trade and other receivables of \$3.1 million (page 72) and Cash and cash equivalents as per consolidated statement of cash flows of \$1.9 million.

Total trade and other payables amount to \$8.8 million and total financial liabilities carried at amortised cost are \$12.1 million. The interest rate for invoice financings has jumped to 2.64% to 9.25% per annum. For 2015, it was 2.42% to 2.93%, as reported in the last year's annual report. The interest rates for Crowdfunding financings are at 13.50% per annum.

It was also noted from the annual report that, as at 30 June 2016, one of the company's subsidiary was not in compliance with financial covenants set out in the banking facilities.

- a) **Can the board comment on the liquidity position of the group?**
- b) **Other than the proposed placement, what is the board's guidance to management to improve the financial position?**

In Note 28: Capital management policies and objectives (page 90), the company has made disclosure of its gearing ratio. From 2014 to 2015, the definition has changed as shown below. The FY2014 gearing ratio was reported as 98% in the 2014 Annual Report and then reported as 60% in the 2015 Annual Report.

Annual Report	Financial Year	Definition of gearing ratio	Debt \$'000	Equity \$'000	Gearing ratio as published
2015	2014	The gearing ratio is calculated as net debt divided by total equity <i>plus debt</i> .	14,592	9,750	60%
2014	2014	The gearing ratio is calculated as total borrowings divided by equity.	9,122	9,321	98%

Subsequently, the definition of gearing used was “net debt divided by ***total equity plus debt***”.

Annual Report	Financial Year	Definition of gearing ratio	Debt \$'000	Equity \$'000	Gearing ratio as published
2016	2016	The gearing ratio is calculated as net debt divided by total equity <i>plus debt</i> .	10,888	770	93%
2015	2015	The gearing ratio is calculated as net debt divided by total equity <i>plus debt</i> .	11,352	6,620	63%
2015	2014	The gearing ratio is calculated as net debt divided by total equity <i>plus debt</i> .	14,592	9,750	60%

- c) Can the auditor provide their views on appropriateness of the change in 2015?
- d) Can the audit committee provide the justification for the change in 2015? What are the reasons to define the gearing ratio as net debt divided by total equity plus debt?

3. Please provide further details on the following interested party transactions.

a) The following material contracts involved the Executive Director and CEO as at the end of the financial year.

MATERIAL CONTRACTS

Save as disclosed in the Directors' report and financial statements, there were no material contracts to which the Company or any of its subsidiaries, is a party and which involve the interests of the CEO, any Director or the controlling shareholder, were subsisting at the end of the financial year ended 30 June 2016 or entered into since the end of the previous financial year.

Lender	Borrower	Contract Date	Tenure	Loan commitment	Interest rate	Payment of Interest & Repayment of principal	Security provided
Jimmy Fong	Epicentre Pte Ltd	15-Jan-16	1 time drawn down	S\$500,000	30% pa	Interest payable monthly in arrears; Loan repayable within 30 days of the lender's demand	Nil
Jimmy Fong	Epicentre Holdings Limited	11-Feb-16	1 year	S\$1,000,000	30% pa	Interest payable monthly in arrears; Loan repayable within 14 days of the lender's demand	Nil

Did the board approve the transaction with the then-CEO? What are the justifications to enter into loans with interest rate of 30% pa?

b) The breakdown of the remuneration package for the past two years of a director of the company is shown below.

From Annual Report 2015

Remuneration Band	Fixed Salary	Directors' Fees	Performance Related Income/Bonus	Total
S\$250,000 to S\$499,999				
Jimmy Fong Teck Loon	88%	12%	–	100%

From Annual Report 2016

Remuneration Band & Name of Directors	Fixed Salary	Directors' Fees	Performance Related Income/Bonus	Other Benefits	Total
S\$1,750,000 to S\$1,999,999					
Jimmy Fong Teck Loon	89%	3%	–	8%	100%

Since the fixed component is about 88-89% of the remuneration, and the band has increased from “S\$250,000 to S\$499,999” to “S\$1,750,000 to S\$1,999,999”, it means that the fixed salary has also increased by about 4 times.

Can the nominating committee justify why the fixed component of the executive director's remuneration is 5 times higher than the year before?

c) In addition, it was disclosed that:

A motor vehicle with net carrying amount of \$90,000 and a fully amortised club membership of the Company were vested on a Director of the Company during the financial year ended 30 June 2016.

Please disclose the fair value of the vehicle and the club membership.