

Issuer: The Hour Glass Limited

Security: The Hour Glass Limited

Meeting details:

Date: 27 July 2017

Time: 10.00 a.m.

Venue: Singapore Marriott Tang Plaza Hotel, Ballroom III, Level 3, 320 Orchard Road, Singapore 238865

Company Description

The Hour Glass Limited, an investment holding company, retails and distributes watches, jewellery, and other luxury products in South East Asia, Australia, and North East Asia. It operates 40 boutiques in 9 cities in the Asia Pacific region. The company also invests in properties. The Hour Glass Limited was founded in 1979 and is based in Singapore.

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

Q1. In the Chairman’s Statement (pages 13-17 of the annual report), the Chairman gave an overview of the group’s performance before delving deep into the challenges facing the watch industry and the group. As part of the group’s focus on developing an “Omni-channel, Omni-commerce” model, a roll-out of the inaugural customer experience management platform will take place in September 2017. This solution is expected to form the backbone of the group’s Omni-channel strategy.

- a) **Can management help shareholders understand how much of its “Omni-channel, Omni-commerce” strategy is defensive in nature (i.e. maintain the group’s revenue and profits) and how much of it is offensive in nature (i.e. bring the group to the next level)?**
- b) **Given that the “management and sales teams have been running twice as hard just to remain in the same place”, how does the group keep the morale of her people up and prevent them from burning out?**

Q2. In Note 16 (Investment in associates) (page 78), the group’s associate, THG Prima Times Co., Ltd (and its subsidiary), reported a 22% drop in revenue from \$172.17 million in 2016 to \$134.72 million in 2017. Profit for the year dropped by half from \$17.9 million in 2016 to \$8.4 million in 2017.

The group accounts for its investment in an associate using the equity method and recognised \$3.32 million as its share of results of associates in 2017, down from \$6.5 million in 2016 (page 40).

- a) **Can management talk about the specific challenges in the Thai market that led to a 22% decrease in revenue and the 53% decrease in profit?**
- b) **Are there signs that the Thai segment will bounce back quickly?**

Q3. The group’s stock allowance is identified as a key audit matter in the Independent Auditor’s Report (page 37) which represents a matter that was of most significance in the audit of the financial statements of the current period.

The group’s stocks, which represents the most significant component of the group’ assets, amounted to \$307,354,000 as at 31 March 2017. This was 51.3% of the group’s total assets of \$599 million.

In Note 21 (page 83 – Stocks), it is disclosed that stocks recognised as an expense in cost of sale was \$539.7 million and the net stock allowance charged to income statement was \$3.53 million, up from \$1.73 million in 2016.

- a) **As stocks are carried at the lower of cost and net realisable value, can the audit committee/auditor elaborate further on how the net realisable value of inventory was estimated?**
- b) **How extensive was the audit sampling of the inventory to estimate the allowance for obsolescence/slow moving stock?**
- c) **Can the company disclose the gross stock allowance and the reversal of write-down of stocks to show how the net stock allowance of \$3.53 million was arrived at?**
- d) **What are management’s efforts to better optimise inventory so that the risk of stock obsolescence/slow moving stock can be minimised?**