

Issuer: Mary Chia Holdings Limited

Security: Mary Chia Holdings Limited

Meeting details:

Date: 2 October 2017

Time: 9.00 a.m.

Venue: SAFRA Toa Payoh, 293 Toa Payoh Lorong 6, Level 3, Everest Room, Singapore 319387

Company Description

Mary Chia Holdings Limited, an investment holding company, provides lifestyle and wellness services for women and men in Singapore and Malaysia. It offers beauty and facial, slimming, and spa and massage services, as well as aesthetics treatment, clinic, and other general medical services. The company operates lifestyle and wellness centers for women under the Mary Chia brand; for men under the Urban Homme brand; for professionals, managers, executives, and businessmen (PMEBs) under the GO60 and LPG Endermospa brands; for families under the Masego brand; for tourists and PMEBS under the Huang Ah Ma brand; and for medical aesthetics under the Scinn Medical Centre and MCU Beautitudes brand names. It also engages in the sale of lifestyle and wellness products under the MU brand at its lifestyle and wellness centers; and distribution and direct sale of skin care and nutrition products under the brand of Organica. Mary Chia Holdings Limited was founded in 1982 and is based in Singapore. As of August 24, 2017, Mary Chia Holdings Limited operates as a subsidiary of Suki Sushi Pte. Ltd.

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

Q1. As disclosed in the Financial and Operations review (page 5 of the annual report), the group “recorded revenue of S\$9.2 million in FY2017, a decrease of S\$4.3 million or 32% from S\$13.5 million in FY2016.” This was mainly attributed to:

- a) Closure of three outlets in Singapore and one outlet in Malaysia, in line with the Company’s operational streamlining; and
- b) Shortage of operation manpower due to the suspension on hiring of foreign workers imposed by the authorities.

The group had closed one outlet in Singapore in the previous financial year (October 2015) and has closed a further four outlets in the financial year ended 31 March 2017.

- a) Can management clarify if the outlets that were closed were loss-making? Can the company provide shareholders with the better visibility on the operational streamlining efforts? How many more outlets are marked for closure? What are the group’s future growth plans for its “lifestyle and wellness services”?
- b) The group has various brands, including Masego The Safari Spa, GO60, LPG® Endermospa and Scinn Medical Centre. Each of them appears to operate on a standalone basis and have only 1 branch each. What is the strategy for the group to scale up its businesses?
- c) When would the group be allowed to resume the hiring of foreign workers? Has management analysed the impact of the suspension imposed by the authorities?

Q2. In the Corporate Governance Report, under risk management and internal controls, the company has disclosed the following:

“The Board has also appointed BDO LLP to carry out (i) an internal audit on Human Resource and Payroll Management; and (ii) a review on the Corporate Governance practices of the Company. BDO LLP had reported internal control deficiencies, which included inconsistencies in commission payout documentation and late renewal of staff insurance policies, as well as several areas of corporate governance practices which require enhancement. The Management have taken steps to rectify the shortcomings and exceptions.” (page 25)

- a) Can management elaborate further on the steps taken to rectify the human resource and payroll management shortcomings? What are the specific measures taken?
- b) In particular, has the company eliminated the practice of obtaining financial guarantee from foreign employees?
- c) How does management ensure the proper maintenance of employee’s record and the proper employment of staff (including obtaining valid work passes and approvals)?
- d) Given the continual manpower shortages and the escalating manpower and rental costs, has the board considered the need for a strategic review of the business?

Q3. On 7 September 2017, the company announced that there are material variances between the unaudited results (as announced on 30 May 2017) and the audited financial statements for FY2017.

The material variances and the reasons given include:

	Audited \$'000	Unaudited \$'000	Reason
Depreciation of property,	(540)	(606)	Depreciation decreased by \$66,000 due to rectification of duplicate accounting entries made

plant and equipment			
Staff costs	(5,929)	(5,807)	Staff cost variance was due to an amendment of payroll and mandatory contributions of \$122,000
Other operating expenses	(3,426)	(2,718)	Other operating expenses variance was due to (i) an increase in impairment of property, plant and equipment for subsidiaries amounting to \$373,000; (ii) loss in fair value of investment property amounting to \$176,000 for subsidiaries; (iii) reclassification of assets written off amounting to \$80,000; and (iv) reclassification of \$45,000 from other operating income
Finance costs	(891)	(715)	Finance costs variance was due to imputed interest on interest-free directors' loans
Borrowings	22,272	23,626	Due to reclassification of \$1.4 million borrowings from Non-Current Liabilities to Current Liabilities
Provision	195	316	Mainly due to reclassification between Non-Current Liabilities and Current Liabilities of \$121,000 as it falls due within the next 12 months as at 31 March 2017

- a) **As management is responsible for the preparation of financial statements to give a true and fair view in accordance with the provisions of the Act and FRSs, how can shareholders get the assurance from management that the financial statements are prepared in accordance with the provisions of the Act and FRSs?**
- b) **As directors' responsibilities include overseeing the group's financial reporting process, can the board help shareholders understand how it has helped management to improve its financial reporting?**

Specifically, the audit committee (comprising Mr Yeung Koon Sang @ David Yeung as Chairman, Mr Pao Kiew Tee and Mr Periowsamy Otharam) has the responsibility to *"review the financial statements before submission to the Board for approval, focusing in particular on changes in accounting policies and practices, major risk areas, significant adjustments resulting from the audit, compliance with accounting standards and compliance with the Catalist Rules and any other relevant statutory or regulatory requirements"* (page 25).

- c) **Can the members of the audit committee explain their individual involvement in the preparation of the financial statements?**
- d) **What are the board's recommendations to management to prevent such material restatements from happening again?**