

Issuer: F J Benjamin Holdings Ltd

Security: F J Benjamin Holdings Ltd

Meeting details:

Date: 27 October 2017

Time: 11.00 a.m.

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, Marc Jacobs, Pretty Ballerinas, Raoul, Sheridan, Superdry, Tom Ford, Valextra, and VNC; distributes timepiece brands, including Alpina, Bell & Ross, ChronoSwiss, Frédérique Constant, Gc, Guess, Julien Coudray, Nautica, Superdry, Victorinox Swiss Army, and Vulcain; and creates and produces Raoul designs. As of June 30, 2016, it operated 226 stores, including 32 stores in Singapore, 69 in Malaysia, and 125 in Indonesia. 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)

Q1. As mentioned in the Chairman’s Review (page 4 of the annual report), the group’s “restructuring programme is nearly completed” and it is expected that the results of the restructuring programme will become evident in the new financial year starting 1 July 2017.

It was also said that strong brands continue to perform well globally and management has disclosed that the new stores (namely Marc Jacobs, Superdry and Rebecca Minkoff) are “performing well above expectations”.

a) Going forward, what are the other plans to leverage on the strong brands so that the group can work its way back on a growth trajectory?

As seen in Note 22 (page 100 – Bank borrowings), the group currently has borrowings in the form of bank overdrafts (\$6.7 million @ 4.25% to 9.10% per annum) and trust receipts and bills payable (\$22.2 million @ 1.50% to 6.31% per annum).

b) Factoring in the cost of capital, would it still make financial sense for the group to continue to fund the expansion plans with such high cost of capital?

There is also a change in the group’s business model where the newly opened outlet mall operations have been added as part of the group’s retail model to clear past season merchandise once new collections arrive.

c) How instrumental was the new outlet mall operations in the write-back of allowance inventory obsolescence of \$2.16 million (page 96 – Note 16: Inventories)?

Q2. As part of the group’s strategy to evolve its business portfolio due to market dynamics and consumer preferences, the agreement for Gap and Banana Republic brands was not renewed and all 20 stores in Singapore, Malaysia and Indonesia will be closed by the first quarter of 2018.

The group has recognised an impairment loss of \$571,000 on leasehold improvements and provided an allowance for onerous leases of \$3.2 million.

a) Does management expect there to be more restructuring costs related to the discontinued operations?

Despite reducing inventories to \$40.6 million as at 30 June 2017 (down from \$54.8 million as at 30 June 2016), the inventories written down charged to the income statement for FY2017 was \$1.6 million, compared to \$0.97 million in 2016.

b) Can management explain if the disproportionately large increase is also due to the impending closure of the Gap and Banana Republic brands? If not, would there be additional inventories write-off for the two discontinued brands?

Q3. The assessment of impairment of investment in associate is one of the key audit matters (KAM) highlighted in the Independent Auditor’s Report. Key audit matters are those matters that, in the professional judgement of the Independent Auditor, were of most significance in the audit of the financial statements of the current period.

As noted in the KAM (page 50):

The carrying value of the Group’s investment in associate amounts to \$23.9 million as at 30 June 2017, which represents 56% of the total net assets of the Group.

In addition, the associate accounts for \$55.5 million and \$34.0 million of sales in 2016 and in 2017 respectively. The associate reported \$104.7 million in revenue and a loss of \$(0.2) million in 2016. In 2017, revenue of the associate increased to \$111.9 million but the loss widened to \$(5.4) million.

- a) **Can management update shareholders on the state of the Indonesian economy and what are the key trends in the retail segment?**
- b) **Given the decreasing revenue at the consolidated group level, the importance of the Indonesia associate is increasing. How much management oversight does the group have in PT Gilang Agung Persada? What is the level of influence and the level of management control over the associate in operational matters and on strategic matters?**

As shown in Note 14 (page 95 – Investment in associates), the associate’s net assets have fallen to \$27.1 million while the net assets attributable to equity owners of the company have now turned negative and amount to \$(3.9) million in 2017, as compared to \$1.0 million in 2016. The group is also exposed to the associate through trade receivables of \$9.9 million and Other receivables of \$7.7 million.

While the group has recognised a provision for impairment in investment in associate of \$(3.98) million in the financial year, the associate is still being carried in the book at \$23.9 million as at 30 June 2017.

- c) **Can management provide better clarity on how, following their impairment test, it has determined the impairment loss of \$(3.98) million and the carrying value of \$23.9 million?**
- d) **Can the group also confirm that 30 June 2018 is the date of conversion of the mandatory convertible bonds (if an initial public offering does not take place before that)?**
- e) **Can management share their assessment of the current financial position and the prospects of the PT Gilang Agung Persada?**

The company also has outstanding corporate guarantees amounting to \$98.9 million provided to banks on banking facilities granted to certain subsidiaries and associates.

- (i) **Can the company provide a breakdown and show the amount of corporate guarantees due to the associate?**

A copy of the questions for the Annual Report for the financial year ended 30 June 2016 could be found here:

<https://sias.org.sg/qa-on-annual-reports/?company=F%20J%20Benjamin%20Holdings%20Ltd>

The company’s response could be found here: -----