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**Issuer:** Parkson Retail Asia Limited

**Security:** Parkson Retail Asia Limited

**Meeting details:**

Date: 31 October 2018

Time: 2.00 p.m.

Venue: Crowne Plaza Changi Airport, Alstonia, Level 2, 75 Airport Boulevard, Singapore 819664

**Company Description**

Parkson Retail Asia Limited, an investment holding company, operates department stores primarily in Malaysia, Vietnam, Indonesia, and Myanmar. Its stores offer products under various categories, such as fashion and apparel; cosmetics and accessories; household, electrical goods, and others; and groceries and perishables to consumers. The company is also involved in the operation of supermarkets; and merchandising activities. It operates approximately 70 department stores. In addition, the company engages in retailing and operating shopping centers; upgrading and leasing retail space for the establishment of a department store; and operates theme parks, related food and beverage and merchandising centers, education centers, and nursery centers. Further, it trades in apparels and consumer products; distributes and sells fragrance and beauty care products; and provides management and consulting services on real estate, business, and marketing in relation to department stores. The company was founded in 1987 and is based in Singapore. Parkson Retail Asia Limited is a subsidiary of East Crest International Limited.

(Source: [http://www.sgx.com/wps/portal/sgxweb/home/company\\_disclosure/stockfacts?code=09E](http://www.sgx.com/wps/portal/sgxweb/home/company_disclosure/stockfacts?code=09E))

1. As mentioned in the Chairman's statement, the group recorded gross sales proceeds of S\$953.0 million, revenue of S\$413.6 million and a reduced net loss of S\$(43.9) million. While the net loss was an improvement from the S\$(61.2) million reported last year, the group has now reported losses in three of the last five years. Total cumulative losses over the 5-year period have exceeded \$97 million. Equity attributable to shareholders has dropped from \$234.1 million in FY2014 to \$48.7 million as at 30 June 2018. The company has also stopped paying dividends since 2016.

Some of the financial and operational highlights are:

- Same Store Sales Growth ("SSSG") in Malaysia was -1.5%
- Negative SSSG recorded in Indochina and Indonesia
- 4 new stores (including 1 managed store) to its department store network
- Closed 7 underperforming stores (including 1 managed store) in FY2018
- Discontinued the theme park and education businesses
- Disposed of investment in LOL-branded retail chain

The chairman has stressed that the group is focused *"on enhancing product offerings, as well as on optimising both our operational efficiency and network of stores... continue to nurture its lifestyle retail concept business model vigilantly, with the focus on select private labels and bakery chain... Opening of new stores will be done selectively... refresh some of our aged department stores so as to remain relevant in the face of intense competition."*

While shareholders appreciate the efforts taken to try to turnaround the business, the continued and large losses would suggest that more drastic measures might be needed. Optimising operational efficiency and opening new stores would probably not be enough to restore the group to a profitable level.

- (i) As the board has the responsibility of providing entrepreneurial leadership to the company, can the board help shareholders understand the deliberations it has had on the long term future and strategic direction of the group?**
- (ii) Did the board review and approve the group's strategic objectives and business plans? What were the targets set for management? Would the current business model be profitable and sustainable?**
- (iii) Could the board help shareholders understand the key drivers of value for the group?**

On 5 October 2018, the company announced that the independent auditor has, without qualifying its opinion, included in its report an emphasis of matter in respect of the audited financial statements of the Group for the financial year ended 30 June 2018. The independent auditor drew shareholders' attention to Note 2 to the Audited Financial Statements, which states the following:

*The Group incurred a net loss of SGD43,931,000 for the year ended 30 June 2018, and as of that date, the Group's current liabilities exceeded its current assets by SGD70,892,000. As*

*stated in Note 2, these conditions indicate the existence of a material uncertainty that may cast significant doubt about the Group's ability to continue as a going concern.*

- (iv) Would the board consider it opportune to carry out a strategic review of the group's operations to assess the core competencies of the group, its management team, its assets (including the brand) and its financial strength and to fine-tune its strategy so as to create long-term sustainable value for all shareholders?** For the review, the board might want to consider different scenarios where the scale of the retail operations is reduced.

2. At the company's annual general meeting scheduled to be held on 31 October 2018, the company is seeking shareholders' approval for a general mandate to issue shares (as set out in Resolution 5).

The company is proposing an Enhanced Rights Issue for the purposes of enabling the company to undertake pro-rata renounceable rights issues of up to 100% of the company's total number of issued shares.

- (i) Would the board and management help shareholders understand if the company is considering an enhanced rights issue limit of up to 100% of the total number of issued shares?**
- (ii) Given the headwinds in the retail business, would the board be considering a diversification of the group's core operations away from the retail business?**
- (iii) Should the company proceed with a rights issue (or other fund raising), what assurance can the board give to shareholders that it would consider the potential dilutive impact and minimise any such dilutive impact to the current shareholders?**

3. The board comprises three independent directors, one non-independent non-executive director and two executive directors. The chairman of the board, Tan Sri Cheng Heng Jem, is an executive director.

In the past year, Mr Wee Kheng Jin did not seek re-election as a director at the AGM held on 31 October 2017 and retired from the Board. On 1 September 2017, Mr Michael Chai Woon Chew and Mr Ng Tiak Soon were appointed to the board as independent directors and were re-elected at the AGM held on 31 October 2017. Mr Tan Siang Long, a non executive non independent director of the company, will be retiring at the forthcoming AGM.

The profiles of the directors can be found on pages 12 to 14 of the annual report.

- (i) Can the nominating committee (NC) elaborate further on its search and nominating process for directors, especially independent directors?** As stated on page 25 (Principle 4: Board membership), the potential candidates are sourced through recommendations of the directors, professional firms and associates, and if need be, through external consultants. **Can the NC explain if it**

**has used professional search firms to widen the search for suitable candidates in the past? Under what conditions would the NC consider doing so?**

- (ii) In addition, has the nominating committee reviewed the overall desired competency matrix of the board and identified any gaps in skills or competencies that could be addressed in future director appointments?**

**[Additional comments:** On pages 10 to 11, the company presented its Corporate Social Responsibility efforts over the course of the year. Under the SGX guidelines for sustainability reporting that was introduced in 2016, companies have up to 12 months from the end of the financial year to publish their first report, starting with any financial year ending on or after 31 December 2017. Rule 711B states that the sustainability report must describe the issuer's sustainability practices with reference to the following primary components: (a) material environmental, social and governance factors; (b) policies, practices and performance; (c) targets; (d) sustainability reporting framework; and (e) board statement. **Can the board/management clarify if it will be publishing a full Sustainability Report, including the key material issues affecting the group, in accordance with Rule 711B? The company should also show how the material issues affect its business model and how the business model delivers long term value for its stakeholders.]**

A copy of the questions for the Annual Report for the financial year ended 30 June 2017 could be found here:

<https://sias.org.sg/qa-on-annual-reports/?company=Parkson%20Retail%20Asia%20Ltd>

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