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Meeting details:

Date: 29 July 2022

Time: 10.00 a.m.

Due to the current COVID-19 pandemic, SIAS encourage shareholders to participate at AGMs via other means and not to attend any AGM physically. Where the AGM is webcast, they can stay on top of their investments by watching the webcast and submitting their question to the company in advance. Senior citizens should avoid attending AGMs altogether and stay home.

Q1. As noted in the chairman’s statement, the specialty luxury watch sector has been enjoying a spectacular boom since the pandemic began. After a precipitous decline in 2020 due to lockdowns, the industry recovered with a vengeance, with exports from Switzerland increasing from CHF20.5 billion in value to CHF21.2 billion (while the volume of exports declined by 25%).

Demand for high-end watches was so strong that supply has not kept up although low-end watches are being decimated by connected watches. The strong demand was attributed to the quantitative easing unleashed by central banks.

- (i) **Going forward, what is management’s view of the market demand as central banks are tightening their monetary policies?**

The chairman reported that the average age of its client, since the pandemic, has declined by 30% and management sees the current situation as a good opportunity for the group to cultivate “*the next generation of clients*”.

- (ii) **In management’s view, how significant is the wealth effect (due to high equity markets, booming cryptocurrencies and soaring non-fungible token prices) on the demand for luxury Swiss watches?**
- (iii) **How confident is management that the “*crypto bros*” and the influencers “*flexing*” on social media will continue to be interested in luxury watches? With equity markets turning bearish, cryptocurrencies taking a beating and secondary-market prices of watches dropping, how sustainable is the demand for Swiss watches from these new and younger clients and what is the risk that this trend will just fade away?**
- (iv) **In management’s view, is there a bubble in the secondary market for luxury watches?**
- (v) **How has the group maintained or improved its relationship with its long-standing customers given the shortage of watches and the influx of new and young buyers in the past 2 years?**
- (vi) **Can management elaborate further on the group’s competitive advantage in cultivating the next generation of clients and instilling client loyalty? Does management see client loyalty harder to instill given the growing use of social media (where influencers are increasingly able to drive demand as compared to traditional retailers)? In addition, with the supply shortages, is client loyalty still important as potential customers will only be “loyal” to a retailer who has watches to sell?**

Q2. In terms of capital allocation, the chairman has made it clear that, beyond the core retail business, the group will be deploying capital to acquire prime commercial retail properties in Australia and New Zealand for now.

Should there be no attractive opportunities in the real estate sector, the group may allocate capital to private and public equities.

In the past financial year, the group has returned capital to shareholders via share buybacks (\$34.1 million) and dividends to shareholders (\$54.5 million in total dividends for FY2022).

- (i) **What are the factors considered by the board in determining the quantum and pace of its share buybacks and the price paid per share?**
- (ii) **With cash and bank balances increasing to \$323.4 million as at 31 March 2022, would the board be considering a special dividend to reward shareholders and to right-size its balance sheet?**

As at 31 March 2022, the group's loans and borrowings have increased to \$111.0 million. This is nearly \$100 million higher compared to the outstanding borrowings of \$15 million as at 31 March 2019 before the pandemic. The loans are mostly taken out in Australian dollar and New Zealand dollar to fund the property acquisitions (page 97).

The secured loans are denominated in the following currencies:

	Group	
	2022	2021
	\$'000	\$'000
Australian Dollar	71,330	65,326
New Zealand Dollar	27,504	27,565
	<u>98,834</u>	<u>92,891</u>

(Source: company annual report)

- (iii) **What is the current level of natural hedging achieved by the group? As the group looks to acquire more real estate in Australia and New Zealand, has the board set a target to the level of natural hedging?**

On 1 June 2022, the company announced that the acquisition of the freehold property located at 151-155, 159, 161 and 171 Edward Street and 211 and 211A Elizabeth Street, Brisbane, in Australia for A\$82.2 million. The purchase consideration was arrived at on a "willing buyer-willing seller" basis, based on the group's assessment of the property's value having regard to its prime location. It was reported by the Australian media that the Brisbane property was valued at A\$71.5m in December 2021, assuming a 3.6% yield and a 4.5% capitalisation rate. The group has recognised fair value loss on its investment properties amounting to \$(10.0) million in FY2021 and \$(1.39) million in FY2022.

- (iv) **What guidance has the board given to management to ensure that the group remains prudent and pays a fair market price to acquire “trophy” assets?**

Q3. In the corporate governance report, the company reiterated its commitment to a high standard of corporate governance, although it noted that it had deviated from Provision 2.2 of the Code of Corporate Governance 2018 (majority of independent directors where the chairman is non-independent), Provision 8.1 (disclosure on remuneration of individual directors and key management personnel), Provision 10.2 (composition of audit committee) and Provision 11.4 (absentia voting at general meetings).

Provision 2.2 requires independent directors to make up a majority of the board when the chairman is non-independent. With the redesignation of a long-tenured director, Mr Kuah Boon Wee, from independent director to non-executive director, independent directors now account for three out of seven members or 43% of the board.

- (i) **With the redesignation of Mr Kuah Boon Wee as non-independent non-executive director, does the nomination and remuneration committee (“NRC”) plan to carry out a comprehensive review of the board composition?**
- (ii) **What deliberations did the board/NRC have on reconstituting the board to meet provisions 2.2 and 10.2 of the Code of Corporate Governance 2018?**
- (iii) **What are the challenges, if any, in making further changes to the board to address the deviations from the Code as a result of the redesignation of Mr Kuah Boon Wee?**

The company has stated that the current number of independent directors is in compliance with Rule 210(5) of the Listing Manual which requires at least one-third of the board to comprise independent directors. Similarly, the composition of the audit committee (AC) has deviated from Provision 10.2 which requires a majority of independent directors in the AC, including the AC chairman. The current AC has only 2 independent directors amongst its 4 members. The company cites its compliance with Section 201(B) of the Companies Act which stipulates, inter alia, that the AC shall be composed of at least three or more members of whom a majority shall not be (i) executive directors of the company or any related corporation; (ii) a spouse, parent, brother, sister, child or adopted child of an executive director of the company or of any related corporation; or (iii) persons having a relationship which, in the opinion of the board, would interfere with the exercise of independent judgement in carrying out the functions of the AC.

- (iv) **Can the board help shareholders better understand why it is “justifying” the deviations from Provisions 2.2 and 10.2 with its compliance with statutory requirements such as the Companies Act, and the Listing Manual of SGX? Do the board’s current practices embrace the spirit of good corporate governance?**

(v) Will the NRC be reconstituting the board and the board committees so that the board adheres more closely to the Code of Corporate Governance 2018?

^On 1 October 2020, the Accounting and Corporate Regulatory Authority (“ACRA”), the Monetary Authority of Singapore (“MAS”) and Singapore Exchange Regulation (“SGX RegCo”) published an updated checklist to guide listed entities on the conduct of general meetings arising from the latest updates from the Multi-Ministry Taskforce.

Issuers may continue to conduct their general meetings held on or before 30 June 2021 via electronic means, and are encouraged to do so. On 9 April 2021, it was announced that the alternate arrangements for meetings (“Meetings Order”) would be extend beyond 30 June 2021 until it is revoked or amended by the Ministry of Law. Accordingly, until such time, issuers may continue to utilise the Checklist issued by ACRA, MAS and SGX RegCo to guide entities on the conduct of their general meetings.

Issuers who, after due consideration of public health and other risks, wish to provide for physical attendance at their general meetings must ensure that they implement all relevant measures to comply with the safe management measures imposed by the Singapore Government.

Shareholders are welcome to use and/or adapt the questions prepared by SIAS and to forward them to the company.

Can’t attend the AGM or view the webcast? Check out the latest questions on the annual reports of listed companies on [SIAS website](#)

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^ Guidance on the Conduct of General Meetings Amid Evolving COVID-19 Situation
(<https://www.sgx.com/media-centre/20201001-guidance-conduct-general-meetings-amid-evolving-covid-19-situation>)