Issuer: Envictus International Holdings Limited
Security: Envictus International Holdings Limited

Meeting details:
Date: 18 January 2017
Time: 10:00H
Venue: Crystal Suite, Level 2, Holiday Inn Singapore Orchard City Centre, 11 Cavenagh Road, Singapore 229616

Company Description

Envictus International Holdings Limited, an investment holding company, manufactures and distributes frozen food, bakery, dairy, water based, and beverage products in Malaysia, New Zealand, Australia, China, rest of ASEAN countries, and internationally. Its Trading and Frozen Food division distributes food products in raw and processed form primarily for the hospitality and consumer-based food industries. This division offers turkey; French fries and other potato products; vegetables, fruits, herbs and spices, fresh fruit juices, assorted cheeses, and other canned products and condiments; dairy whipping cream, seafood, pasta, milk, and various condiments; and chilled and frozen beef, lamb, venison, and canned fruits. The company's Food Services division develops and operates Texas Chicken restaurants in Malaysia and Brunei, which offers American-styled fried chicken, flavored fried chicken, honey butter biscuits, mashed potatoes, and others. Its Nutrition division markets branded sports nutrition and weight management food products to athletes and mass consumer markets. This division's business trades under the Horleys, Sculpt, Replace, and Pro-Fit brand names. The company's Food Processing division manufactures and markets frozen bakery items, which include raw frozen dough and baked frozen products, such as baguettes, bread items and rolls, buns, croissants, danishes, muffins, and savories to hotels, restaurants, cafes, and other food service industries. This division also produces and distributes fresh breads and buns to hypermarkets, supermarkets, factory canteens, petrol marts, grocery stores, and convenience shops. It also provides IT, as well as property investment and management services; and operates specialty coffee outlets. The company was formerly known as Etika International Holdings Limited and changed its name to Envictus International Holdings Limited in July 2014. Envictus International Holdings Limited was founded in 1997 and is based in Singapore.
(Source: http://www.sgx.com/wps/portal/sgxweb/home/company_disclosure/stockfacts?code= BQD)

Q1. In the Message from the Chairman (page 13 of the annual report), it was disclosed that the group has "started the construction of warehouse and factory on two plots of land in Selangor Halal Hub Pulau Indah ("SHHP") and this is expected to complete middle of next year. The warehouse is to facilitate the expansion of our Trading and Frozen Food Division to cope with the requirement of Food Services Division and future growth of the Trading and Frozen Food business".

a) **Can the company clarify if the warehouse and factory are expected to be completed in mid-2017 or in mid-2018?**

b) **What will be the capacity of the new warehouse and factory when they are completed?**

As at 30 September, the group's cash and cash equivalents amounted to RM58 million (page 105) and total borrowings amounted to RM75 million (up from RM47 million a year ago). In Note 30.1 (Capital Commitments – page 117), it was also disclosed that the group has committed RM82 million for the "purchase of property, plant and equipment".

c) **What is the total development cost of the Selangor Halal Hub Pulau Indah? How is the group going to fund the development cost?** As the group has expanded the Texas Chicken network, the balance sheet is starting to be stretched.

d) **What are the projected benefits (in terms of revenue growth, cost savings etc) from the new hub?**

Q2. In the Review of Operations, revenue from Food Services grew an impressive 81.5% (page 19) to hit RM80.6 million. It was further disclosed that "Texas Chicken which continues to achieve a strong increase in revenue from RM44.4 million to RM70.2 million, as a result of the opening of 10 new restaurant outlets and improved sales performance attributed to market acceptance of its products quality, value and brand recognition".

a) **Can management provide a further breakdown of the same-store revenue growth from the 22 outlets from 2015 to 2016?**

b) **What is the targeted number of Texas Chicken outlets for the Malaysian market? Is there evidence that the new outlets have cannibalised sales from the existing outlets?**

c) **As the group enters the 5th year of a 10-year International Multiple Unit Franchise Agreement for "Texas Chicken", can management let shareholders know how the franchise has performed compared to the projections that were made in 2012?**

d) **Can the company also provide a breakdown of the profit/(loss) after tax of both Texas Chicken and San Francisco Coffee separately?** Despite growing the revenue by 81.5% for the segment, the loss for the Food Services segment decreased from (RM3.3 million) in 2015 to (RM2.3 million) in 2016. Shareholders would like to understand if the Texas Chicken operations have turned profitable as revenue as soared in 2016.

Q3. On 5 November 2015, the company announced that it had "acquired a total of 92,676,600 ordinary shares, representing 11.43% of the issued and paid-up share capital of Yamada Green Resources Limited for an aggregate consideration of S$10,499,974.88 by way of purchase through open market and married deal transactions.

In the same announcement, the rationale given for the acquisition was that it "represents a strategic investment by the Company in the food industry. The Group will have an additional stream of income by way of dividend income, which is higher than the interest income which the Company is earning".

As at 30 September 2016, equity attributable to the owners of the company is RM351 million (Statement of financial position – page 57). The investment into Yamada Green Resources is recorded as available-for-sale financial assets with the initial cost of RM32.1 million, or roughly 10% of the equity attributable to owners of the company. However, there is no mention of Yamada Green Resources in the annual report. Even in the note on available-for-sale financial assets, the investment was just referred to as "quoted equity securities".

a) **Can the board explain, in greater detail and provide clear justification, the group's investment into Yamada Green Resources that was identified as a "strategic investment"?**

Further, in note 7 (Available-for-sale financial assets – page 97), it was noted that there was a fair value loss of (RM15.1 million) related to the available-for-sale financial assets. In addition, Yamada declared a first and final dividend of RMB0.008 per *consolidated* share in 2016, compared to RMB0.006 per (unconsolidated) share in 2015. As the share consolidation ratio was 5 shares into 1, the dividend has decreased by about 75%.

b) **Can the board share its assessment of the performance of the investee? Does the group have any influence on the investee?**

c) **Can the board confirm that this investment into Yamada Green Resources continue to be "strategic" to the group?**

d) Even though the unrealised fair value loss may reverse in the next reporting period, it will be difficult for the group to monetise this investment. Also, the anticipated dividend has dropped by 75%. **What are the board's strategies to maximise the return from this investment for the benefit of all shareholders?**